

Pulikkal Medical Foundation

March 03, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	133.09 (Enhanced from 100.00)	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE A+; Stable (Single A Plus; Outlook: Stable)
Short-term Bank Facilities	12.00	CARE A1 (A One)	Reaffirmed
Total Facilities	145.09 (Rs. One hundred forty-five crore and nine lakh only)		

Details of facilities in Annexure – 1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Pulikkal Medical Foundation (PMF) factors in the decline in the performance of the Trust with drop in the occupancy levels in the hospital during FY21 (refers to the period April 1 to March 31), slow progress in execution of the large debt-funded capex, along with revision in the scope entailing higher debt. The ratings continue to derive strength from the vast experience of the promoters in the healthcare industry, established presence of the hospital in the Kochi region, its long track record of operations for around four decades, comfortable capital structure and debt coverage metrics albeit moderated during the year. The ratings are, however, constrained by the large part of the revenues dependent on a single hospital, project risk associated with large ongoing debt-funded capex, dependence on scarcely available medical professionals and growing competition in the industry.

Key Rating Sensitivities:

Positive Factor: Factors that could lead to positive rating action/upgrade:

- The ability of the trust to successfully complete the ongoing capex without any cost overrun and diversify income from the single hospital.
- Scale up the operations to above Rs.300 crore while maintaining SBID margin of over 15% on a sustained basis.

Negative Factor: Factors that could lead to negative rating action/downgrade:

- Any significant delay or cost overrun in completion of capex and inability of the trust to achieve envisaged occupancy levels from the new hospitals.
- Any further large debt-funded capital expenditure leading to moderation of capital structure with gearing ratio above 0.7x.

Detailed description of key rating drivers

Key Rating Strengths

Experienced promoters

The promoters of PMF have a long track record of managing the affairs of the hospital and are actively involved in the day to day operations of the hospital. There is a clear demarcation of functional areas amongst them with assistance by a team of professionals.

Established hospital in the region

The hospital is one of the largest National Accreditation Board for Hospitals and Healthcare providers (NABH) accredited tertiary care hospitals in Kerala catering to patients in Kochi and its surrounding districts. Over the years, Medical Trust Hospital (MTH) has grown from a small primary care hospital to a multi-specialty tertiary care referral hospital with a total bed capacity of 850 beds as on March 31, 2021. MTH is accredited by National Board of Examination in 16 specialties for Diploma in National Board (DNB). The hospital also runs courses like M.Sc. Nursing, B.Sc. Nursing, Post B.Sc. Nursing, and Diploma in radiology, Diploma in ophthalmic assistance etc.

Comfortable capital structure and debt protection metrics

The capital structure of the Trust remained comfortable at 0.13x as on March 31, 2021 albeit moderated from 0.01x as on March 31, 2020, due to the incremental debt availed for the ongoing capex. The debt coverage metrics also stood comfortable with total debt to gross cash accruals (TDGCA) of 2.35 as on March 31, 2021 (PY: Nil).

Key Rating Weaknesses

Moderate operational and financial performance of the hospitals

The total operating income (TOI) of the Trust declined by 15.68% to Rs.192.5 crore in FY21 from Rs.228.3 crore in FY20 due to decline in the inpatient flow following COVID-19-induced lockdown restrictions and lower number of surgeries performed. The average occupancy level of the main hospital at Cochin declined to 48% in FY21 from 83% in FY20, while that of hospital at

¹Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE Ratings Ltd.'s publications.

Kuzhuppilly dropped to 21% in FY21 from 44% in FY20. The SBID margin of the trust declined to 6.04% in FY21 from 11.09% in FY20. The Trust reported surplus of only Rs.3.1 crore in FY21 as against Rs.27.5 crore in FY20. The Trust booked income of Rs.171.3 crore in 9mFY22 as against Rs.136.7 crore in 9mFY21.

Project risk associated with large debt funded capex

During FY21, PMF had planned to setup a 50-bed hospital specialising in women and child healthcare and a 150-bed transplantation centre at the total cost of Rs.150 crore funded by term loan of Rs.100 crore and rest by accruals. The Trust increased the scope of the project by another 50 beds in Women and child healthcare hospital thereby increasing the cost of project to Rs.200 crore funded by term loan of Rs.135 crore and rest by accruals. While the projects are yet to see the planned progress, the repayment of the debt availed for the same has commenced before the COD of the project. Given the relatively larger size of the project compared to the networth, the ability of the Trust to successfully complete the above projects on time without any cost overrun and achieve envisaged occupancy levels in the new hospital remains the key to the prospects

Concentrated nature of operations and growing competition in the industry

Despite being in the operation for around four decades and enjoying continued patronage from the local population, the major portion of the revenue (96%) of PMF is contributed by Kochi hospital. MTH faces competition from existing players in the region providing tertiary care facilities, regional private hospitals giving primary care and secondary care services and large number of private clinics.

Reliance on scarce medical professionals

The presence of qualified medical professionals such as doctors, paramedical staff and support staff is one of the important requisites of a hospital to be successful and to get continued patronage from the local population. MTH is highly dependent on these scarcely available medical professionals. Given the increasing competition and the scarcity of medical specialists, the ability of the hospital to retain its current pool would be important.

Liquidity- Adequate

The liquidity of the Trust is adequate marked by sufficient accruals against repayment obligations and cash balance of Rs.17.4 crore as on March 31, 2021. Due to cash and carry nature of the business, the dependence on the working capital borrowings has been generally low. The hospital maintains inventory of medicines and consumables for a period of 10-15 days. The hospital enjoys a credit period of about 30 days from its suppliers for medicines. The trust has working capital limits of Rs.5 crore and the average utilisation of the same stood at 3.27% over the past 12 months ended December 2021. The current ratio stood at 1.19x (PY:1.57x) as on March 31, 2021.

Industry Outlook

The healthcare industry is highly competitive with a large number of established organized players and their growing network of hospitals. Healthcare has become one of India's largest sector, both in terms of revenue and employment. The GoI has announced Rs 69,000 crore outlay for the health sector that is inclusive of Rs 6,400 crore for PMJAY in Union Budget 2020-21. Despite the current Covid-19 crisis being a healthcare issue, the private healthcare system in the country continues to reel under the negative impact of COVID-19. The industry is facing twin challenges of investing additional manpower, equipment, consumables and other resources to ensure safety of hospital, staff and patients; and sharp decline in international patients.

Analytical approach:

Standalone

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Hospital](#)

[Service Sector Companies](#)

About the Trust

PMF was initially established as a partnership firm during 1972 in the name of Pulikkal Corporation (PC) by its founder director Late Dr. P. A. Verghese. PC later established MTH in 1973. Subsequently during 1976, PC was converted into a private limited company and renamed as Pulikkal Medical Foundation Private Limited. Later during 1988, the company got registered under section 25 of the Companies Act with the objective to run the company for charitable purpose and renamed as PMF. The Trust runs a multispecialty hospital with 750 beds at Kochi, Kerala and another 100-bed hospital at Kuzhuppilly which acts as a satellite centre to the main hospital.

Brief Financials (Rs. crore) – Standalone	FY20(A)	FY21(A)	9mFY22 (Prov)
Total operating income	228.3	192.5	171.3
SBID	25.3	11.6	26.8
Surplus	15.8	3.1	15.3
Overall gearing (times)	0.00	0.13	NA
Interest coverage (times)	NM	89.42	NA

A: Audited; Prov: Provisional; NA: Not available; NM- Not meaningful

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-BG/LC		-	-	-	7.00	CARE A1
Fund-based - LT-Term Loan		-	-	September 2031	133.09	CARE A; Stable
Fund-based - ST-Bank Overdraft		-	-	-	5.00	CARE A1

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (26-Dec-18)
2	Fund-based - LT-Cash Credit	LT	-	-	-	1)Withdrawn (10-Mar-21)	1)CARE A+; Stable (17-Mar-20)	1)CARE A+; Stable (26-Dec-18)
3	Non-fund-based - ST-BG/LC	ST	7.00	CARE A1	-	1)CARE A1 (10-Mar-21)	1)CARE A1 (17-Mar-20)	1)CARE A1 (26-Dec-18)
4	Fund-based - LT-Term Loan	LT	133.09	CARE A; Stable	-	1)CARE A+; Stable (10-Mar-21)	-	-
5	Fund-based - ST-Bank Overdraft	ST	5.00	CARE A1	-	1)CARE A1 (10-Mar-21)	-	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - ST-Bank Overdraft	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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