North East Onco Care Limited
April 08, 2021

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	15.00	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Assigned
Total Facilities	15.00 (Rs. Fifteen Crore Only)		

Details of instruments/facilities in Annexure-I

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of North East Onco Care Limited is constrained by its small scale of operation along with moderate profitability margin, concentration in the revenue stream, capital intensive and human resource intensive nature of business, limited geographical reach and competition from established players in the region and project implementation risk. However, the aforesaid constraints are partially offset by its experienced promoters with expertise in healthcare sector, healthy occupancy rate, steady average length of stay and moderate average revenue per occupied bed, comfortable overall solvency position.

Key Rating Sensitivities

Positive Rating Sensitivities

- Sizeable increase in scale of operations (turnover beyond Rs.100 crore with improvement in operating margin beyond 5.0%) while maintaining its below unity overall gearing ratio on a sustained basis.

Negative Rating Sensitivities

- Significant deterioration in capital structure (overall gearing beyond 1.50x) and its increased reliance on external borrowings to fund these requirements on a sustained basis.
- Any sizeable decline in scale of operation (turnover below Rs.15 crore) on a sustained basis.
- Further delays in the operationalization of the ongoing project or cost of the project exceeding the estimated level or any new capex impacting the credit profile

Detailed description of the key rating drivers

Key Rating Weakness

Small scale of operation along with moderate profitability margin

The scale of operation of the company is small marked by total operating income of Rs.17.54 crore in FY20 (Prov.) and the same declined by 19% as compared to FY19 primarily on account of decrease in demand for Onco Care and providing service in a specific department (oncology) leading to de-growth in the revenue. The PBILDT margin declined in FY20 (Prov.) to 8.65% from 13.22% in FY19 and 18.81% in FY18 on account of higher operational expenses in FY20 (Prov. Viz. selling, general & administrative expense, employee cost) and impact of COVID-19 on operation of the hospital towards the end of March 2020. The PAT margin of the company also deteriorated to 0.97% in FY20 (Prov.) from 5.00% in FY19 and 10.57% in FY18 as the interest charge remain on the same line. The small size restricts the financial flexibility of the company in times of stress and it suffers on account of economies of scale.

The operation of the hospital has been impacted due to sudden outbreak of novel corona virus which has resulted into countrywide lockdown, for which the hospital was closed during 3 months from April, 2020 to June, 2020 and it has started its operation from July, 2020.The situation is a little bit stable from the time of unlock and patients are coming to the hospital for treatment. Due to COVID, the revenue got affected in Q1FY21. Further, the company was able to generate a total operating income of Rs.8.29 crore in 8MFY21.

Concentration in the revenue stream

The company derived its revenue from Oncology department alone as the hospital provides services to the cancer patients only. The revenue stream therefore associated with a concentration risk. The continued availability of professionals in the department and maintenance of service quality will directly affect the revenue stream of the company from this department.

Capital intensive and human resource intensive nature of business

Hospital industry is a capital-intensive industry with relatively long gestation period. Generally, new hospital takes around 2-3 years' time frame to breakeven at operational level. Establishment, occupancy rate and financial stability in the initial period of operation takes time. Thus, the promoter is required to support the operation until the mentioned parameters reach the minimum desired level. Further, the maintenance capex required for the hospital industry also remains high owing to regular replacement of equipment's, non-reusable pharmaceutical and surgical products and to update the latest technology. The industry also faces challenges with respect to hiring on-role and/or off-role doctors, nurses and other staff. Hence dependence on human resources is high and is employed and deployed as per requirement.

Limited geographical reach and competition from established players in the region

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

The company is operating a single hospital in Guwahati (Assam). This limits the ability to tap opportunities and revenue. Further, though the hospital has an established oncology and cardiology department, it faces stiff competition from several other private hospital chains. This leads to competition not only in acquiring patients, but also in attracting medical professionals.

Project implementation risk

The company is undertaking a project for installation of latest advance equipment (Linear Accelerator) at a cost of Rs.19.78 Crore and at its existing premises. The project was earlier expected to be completed by January, 2021. However, the project got delayed owing to the impact of Covid-19 on the operations of the hospital and limited availability of workers as a result of the pandemic and it is expected to complete by April, 2021. The total projected cost is estimated at Rs.19.78 crore out of which Rs.0.25 crore has already been incurred as on November 30, 2020 through internal accruals generated by the company. The balance amount will be funded through term loan of Rs.14.90 crore, promoter's contribution by way of equity of Rs.1.00 crore and Rs.3.88 crore by way of internal accruals of the company. The term loan has already been sanctioned. Successful completion of the project within the time and cost estimates will remain critical for the company.

Key Rating Strengths

Experienced promoters with expertise in Healthcare sector

NOECL commenced healthcare operation by building hospital (with seventy-five beds capacity) in 2003 and the operation has started from 2008. It has operated the single hospital in Guwahati, Assam under the brand name "North East Cancer Hospital and Research Institute".

Dr. Munindra Narayan Baruah, Managing Director of NOECL, is a qualified and renowned doctor in the field of head and neck oncology. He has about two decades of experience in the healthcare sector. He looks after the day-to-day affairs of the company along with the support of experienced professionals.

Healthy operational parameters with strong occupancy rate, steady average length of stay (ALOS) and moderate average revenue per occupied bed (ARPOB)

The overall occupancy rate of NEOCL has been moderated to 85% in FY20 from 89% in FY19 and 96% in FY18 due to decrease in demand resulting to decrease in patient and NEOCL reported a higher average revenue per occupied bed though it has moderated to Rs.2745313 in FY20 (from Rs.3088060 in FY19 and Rs.3658333 in FY18) as cancer treatment is highly expensive among others. The average length of stay per patient remained stable during FY18-FY20. Further, the operation in H1FY21 has been impacted on account of sudden outbreak of novel corona virus for which the hospital was closed during April-June due to countrywide lockdown and the operation has started from July, 2020. As a result, the overall occupancy rate has deteriorated in H1FY21 to 64%. The company has able to generate revenue of Rs.8.29 Crore in 8MFY21.

Comfortable overall solvency position

The capital structure of the company is comfortable with debt-equity ratio and overall gearing ratio at 0.16x and 0.16x respectively, as on March 31, 2020 (prov.); as compared to 0.15x and 0.15x respectively, as on March 31, 2019 as the company has only term loan in the account. Apart from that, the debt coverage indicators is moderate marked by interest coverage ratio and total debt to GCA stood at 8.58X in FY20 (prov.) and 1.73x as on March 31, 2020 (prov.), respectively as against 12.91x in FY19 and 0.81x as on March 31, 2019, respectively. The interest coverage ratio has deteriorated on account of lower PBILDT in absolute value terms in FY20 (Prov.) and the total debt to GCA ratio has deteriorated on account of higher total debt outstanding at the end of the year in FY20 (prov.).

Liquidity analysis-Adequate

The liquidity of the company is marked by gross accruals of Rs.1.30 crore as against debt repayment of Rs.0.65 Crore and cash balance of Rs.2.04 crore in FY20 (Prov.). The current ratio of the company is high at 5.12x as on March 31, 2020. The operating cycle has increased to 95 days due to higher collection period. As per banker interaction, the company has not availed moratorium of its bank facilities and they are paying interest on time. Further, the company has taken COVID loan of Rs.0.33 crore and the repayment has started from September, 2020 as per banker.

Analytical approach: Standalone

Applicable Criteria:

Criteria on assigning outlook and credit watch to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology for Hospital Industry
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-financial sector entities

About the Company:

North East Onco Care Ltd. (NEOCL) was incorporated on October 28, 2003. It is an Assam-based company engaged in healthcare business for cancer treatment with around 75 bed capacity as on October 31, 2020. It is the first comprehensive Cancer care center of its kind in North East India under private sector. The Company has been operating as a state of art cancer hospital and research center for almost 10 years now as a brand name “North East Cancer Hospital and Research Institute”. The institute is recognized by UICC (Union for International Cancer Control), Geneva. The Company is planning to procure latest advanced equipment (Linear Accelerator) at a cost of Rs.18.84 Crore which would help them to offer better treatment and customer Services. The completion of enhanced capacity of unit is expected by June, 2021 and commercial operation will start from July, 2021.

The company is managed by a six-board member headed by Mr. Ganesh Tamuli, Chairman (60 years), Dr. Munindra Narayan Baruah (aged - 59 years), MD and Dr. Pranab Malla Baruah (68 years), Whole time Director, Dr. Munindra Narayan Baruah is a qualified (MS, FICS) and renowned doctor in the field of Head & Neck Oncology.

Brief Financials (Rs. crore)	FY19 (A)	FY20(Prov.)
Total operating income	21.78	17.54
PBILDT	2.88	1.52
PAT	1.09	0.17
Overall gearing (times)	0.15	0.16
Interest coverage (times)	12.91	8.35

A: Audited, Prov.: Provisional

Status of non-cooperation with previous CRA: Not Applicable.

Any other information: Not Applicable.

Rating History (Last three years): Please refer Annexure-2

Rating History of last three years: Annexure-2

Detailed explanation of covenants of the rated facilities: Annexure-3

Complexity level of various instruments rated for this Company: Annexure-4

Annexure-1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	March 2028	15.00	CARE BB-; Stable

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	15.00	CARE BB-; Stable	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated facilities: Not applicable

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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