

Pulikkal Medical Foundation

March 10, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	100	CARE A+; Stable (Single A Plus; Outlook: Stable)	Assigned
Short-term Bank Facilities	5	CARE A1 (A One)	Assigned
Short-term Bank Facilities	7 (Enhanced from 5)	CARE A1 (A One)	Reaffirmed
Long-term Bank Facilities	-	-	Withdrawn
Total Bank Facilities	112 (Rs. One hundred twelve crore only)		

Details is Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Pulikkal Medical Foundation (PMF) 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 and stable operational track record of nearly four decades with satisfactory bed occupancy levels. The rating also takes note of the comfortable capital structure albeit ongoing debt funded capex, comfortable liquidity position and healthy cash accruals.

The ratings, however are 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.

Rating Sensitivities

Positive factors

- Ability of the trust to significantly scale up the operations and diversify the revenue concentration from a single hospital.

Negative Factors

- 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 0.4x.

Detailed description of the 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. A clear demarcation of functional areas looked after exists amongst them and they are assisted by a team of professionals.

Established hospital in the region: The hospital is one of the largest National Accreditation Board for Hospitals and Healthcare (NABH) providers accredited tertiary care hospitals in Kerala catering to patients in Kochi and its surrounding districts. Over the years, 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 of March 31, 2020. 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.

Stable financial and operational performance: The operating income of PMF registered growth of 8.82% from Rs.209.44 crore in FY19 (refers to the period April 1 to March 31) to Rs. 228.31 crore in FY20 (refers to the period April 1 to March 31) on account of higher outpatient numbers. The SBID margin of PMF increased from 10.26% in FY19 to 11.09% in FY20 due to the ability of the hospital to collect increased fee for the advanced treatment methods. The company has recorded an operating income of Rs. 136.75 Crores during 9MFY21 (refers to the period April 1 to December 31) with SBID margin of 13.36%. The occupancy rate of beds remained stable at 83% (PY: 85%) for Kochi hospital and 42% (PY:42%) for Kuzhupilly Hospital. The occupancy rate at the Kuzhupilly hospital remained low as it is situated in the rural area and the patients with complicated surgeries are referred to the main hospital.

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

Comfortable capital structure albeit ongoing debt funded capex

The financial risk profile of PMF continues to be strong with healthy accruals, low gearing due to negligible reliance on debt. During current year, PMF planned to setup a 50-bedded hospital providing women and childcare services near the existing hospital at Kochi, at the cost of Rs.34 crore funded by term loan of Rs.27 crore and rest by accruals. In addition to the above, PMF had also planned to set up a 150-bedded hospital specializing in Heart, Kidney and Liver transplantation at Ravipuram, Kochi at the cost of Rs.116 crore to be funded by term debt of Rs.73 crore and the rest by internal accruals. The above two hospitals are expected to commence operations from June 2021 and October 2022 respectively.

Key Rating Weaknesses

Concentrated nature of operations and growing competition in the industry: Despite being in 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: 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- Strong: Liquidity is marked by strong accruals against nil repayment obligations and cash balance of Rs.15.18 crore as on March 31, 2020. Due to the cash and carry nature of business and the healthy accruals, the liquidity position of PMF has been healthy and 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. The trust has working capital limits of Rs.5 crore and the average utilization of the same stood at 1.32% over the past 12 months ended December 2020. PMF did not avail any moratorium offered by banks as a measure of relief for Covid 19.

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 Government of India aims to increase healthcare spending to 3% of the Gross Domestic Product (GDP) by 2022. The GoI has announced increased spending on healthcare by 137% through Pradhan Manthri Atmanirbhar Swasth Bharath Yojna (Rs. 64180 Crore) 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 ensuring safety of hospital, staff and patients; and sharp decline in international patients.

Analytical approach: Standalone

Applicable Criteria

[Rating Methodology- Hospital Industry](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial Ratios- Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Criteria for Short term Instruments](#)

About the Company

Pulikkal Medical Foundation (PMF) is a Kochi-based company registered under section 25 of companies act. It is engaged in providing healthcare services and related education and training. 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-bedded hospital at Kuzhuppilly which acts as a satellite centre to the main hospital.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	209.44	228.31
SBID	21.48	25.32
Surplus	11.08	15.79
Overall gearing (times)	0.00	0.00
Interest coverage (times)	NM	NM

A- Audited; 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 on instruments rated:** NA**Complexity level of various instruments rated for the company:** Please refer Annexure-3**Annexure-1: Details of Instruments/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-Cash Credit	-	-	-	0.00	Withdrawn
Non-fund-based - ST-BG/LC	-	-	-	7.00	CARE A1
Fund-based - LT-Term Loan	-	-	October 2030	100.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (26-Dec-18)	1)CARE A+; Stable (12-Jan-18)
2.	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE A+; Stable (17-Mar-20)	1)CARE A+; Stable (26-Dec-18)	1)CARE A+; Stable (12-Jan-18)
3.	Non-fund-based - ST-BG/LC	ST	7.00	CARE A1	-	1)CARE A1 (17-Mar-20)	1)CARE A1 (26-Dec-18)	1)CARE A1 (12-Jan-18)
4.	Fund-based - LT-Term Loan	LT	100.00	CARE A+; Stable	-	-	-	-
5.	Fund-based - ST-Bank Overdraft	ST	5.00	CARE A1	-	-	-	-

Annexure-3: Complexity level of various instruments rated for the company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Fund-based - ST-Bank Overdraft	Simple
4.	Non-fund-based - ST-BG/LC	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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