

## 102 Mother Child Services (UP)

February 18, 2020

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>[1]</sup>	Rating Action
Long-term Bank Facilities	14.70	<b>CARE BB; Stable (Double B; Outlook: Stable)</b>	Assigned
Long/Short term Bank Facilities	18.31	<b>CARE BB; Stable/CARE A4 (Double B; Outlook: Stable/ CARE A4)</b>	Assigned
<b>Total</b>	<b>33.01 (Rupees Thirty Three crore and One lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of 102 Mother and Child Services (UP) (102MCS) are constrained by nascent stage of operations with under achievement of key performance indicators, delay in receipt of dues coupled with stretched liquidity of the predecessor, GVK Janani Shishu Suraksha (UP) on account of delayed payments from Govt. of U.P., risk of penalty/deductions from Govt. of Uttar Pradesh (U.P.), risk of appointment of new service provider upon expiry of agreement or termination, competition from local hospitals and other private ambulance service providers and single state presence resulting in geographical and revenue concentration. The ratings, however, derive strength from the company being part of the GVK group which is one of the pioneers in the field of emergency management services with diversified presence across India, established board of governing members and senior management, fixed source of revenue from the state Govt. of U.P and robust governance mechanisms as per Management Agreement with State Government. The ratings also draw comfort from the operational and financial linkages with parent; GVK EMRI.

### Key Rating Sensitivities:

#### Positive Factors:

Increase in the number of trips/ambulance/day from current level to more than 10 during projected period.  
Improvement in collection with collection period less than 45 days.

#### Negative Factors:

Delay in realization of revenue from Govt. of Uttar Pradesh in the projected period resulting in collection period of beyond 90 days.

### Detailed description of the key rating drivers

#### Key Rating Strengths

***Part of a group which is one the pioneers in the field of emergency management services with diversified presence across India:***

102MCS is a special purpose vehicle of GVK EMRI with later having 51% shareholding in the company. The company is formed to provide ambulance services to beneficiaries for health services related to pregnancy, antenatal care, delivery and health of neonates and infants in the state of Uttar Pradesh (U.P). Comfort is derived from the operational and financial linkages with GVK EMRI, the flagship entity providing emergency services of the GVK group, which has pioneered the first of its kind service in India by providing a single toll free number (102) for initiating the ambulance services under the guidance of specially trained medical professionals. As on September 30, 2019, GVK EMRI has 8,255 ambulances and has operations across 11 states and 2 UTs in India. Further, at present the performance BG has also been extended by GVK EMRI on behalf of 102MCS.

#### ***Established board of governing members and senior management:***

The governing board of 102MCS comprises eminent individuals to provide strong thrust to the initiative. Dr. G.V. Krishna Reddy is the founder and Chairman of GVK group, a diversified industrial house with interests in a wide range of businesses including power generation, airport operations and management, roads, urban infrastructure, bio-science, hospitality services and manufacturing sectors. He is the Chairman of 102MCS as well. Other members of the governing board of the company include Mr. G. V. Sanjay Reddy and Mr. Krishna Ram Bhupal who have experience in the emergency management services and have been board members for its predecessor GVK Janani Shishu Suraksha (UP).

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

**Fixed source of revenue from the state Govt. of U.P albeit presence of penalty/deduction risk:**

As per the management agreement, 102MCS will receive monthly fees of Rs.1,34,433/ambulance/month for the first year of operations with an annual escalation clause of 8%. The contract is valid for a period of 5 years unless otherwise terminated in accordance with the terms of contract.

The full 100% of payment of fees is subject to operating at an average of 8 trips per ambulance per day and covering of minimum 140 kms per ambulance per day on the average fleet per district in any month. If the company fails to achieve the agreed performance parameters, a proportionate deduction shall be made as per the agreement. The company can also get incentive if it achieves more than aforementioned trips and distance.

**Robust governance mechanisms as per Management Agreement (MA) with State Government:**

The governance mechanism as per the MA is robust. The service provider (102MCS) has to provide GPS enabled trip data to the authority for performance monitoring and payment purpose. The service provider shall hold, at least 51% of the subscribed and paid up equity at all the times until the end of term of contract. All major and minor maintenance, servicing and replacement of spares and equipment in ambulances shall be the responsibility of service provider. The service provider has to equip and operationalize Centralized Call Center (CCC) with at least 220 seats to receive emergency calls and assign ambulances. In the event of any accident of an ambulance, all cost of repair etc. of such ambulance shall be borne by the service provider. In case, the company breaches any of the clauses in the agreement, the contract can be terminated by the Govt.

**Key Rating Weaknesses:****Nascent stage of operations coupled with under achievement of key performance indicators:**

102MCS commenced operations from July 15, 2019 and therefore FY20 is the first year of operations for the company. For the period ended till Dec. 31, 2019, the average number of trips handled and distance covered by each ambulance of 102MCS per day stood at 5.40 trips and 114kms respectively which is lower than the stipulated key performance indicators of 8 trips and 140 kms respectively. Lower average number of trips/ambulance/day and distance covered/ambulance/day is on account of lower number of phone calls received.

**Presence in a single state thereby resulting in concentration risk:**

102MCS operates in the state of Uttar Pradesh and derives 100% of its revenue from state government for providing transport services to beneficiaries for health services related to pregnancy, antenatal care, delivery and health of neonates and infants to designated facilities under Janani Shishu Suraksha Karyakaram and Janani Suraksha Yojana schemes as per guidelines of the Govt. of India and/or Govt. of Uttar Pradesh. While there exists a firm long term agreement with Dept. of Medical, Health & Family Welfare; The Govt. of U.P (DMHFUP) due to which the revenue, client and geographical concentration has been 100%, such high dependence might result in weak liquidity position for the company in case of delayed disbursements or cut down in healthcare budget by Govt. of Uttar Pradesh.

**Delay in receipt of dues coupled with stretched liquidity of the predecessor, GVK Janani Shishu Suraksha (UP) on account of delayed payments from Govt. of U.P.:**

During the period of July 2019-December 2019, the company has billed an amount of Rs.167.37 crore. However, as per the management, the state Govt. has withheld an amount of Rs.98.29 crore and sought few clarifications with respect to trips and delays. As against the billed amount of Rs.167.37 crore; the company has received Rs.69.05 crore. The balance amount is expected to be reconciled by end of year and released subject to deductions. 102MCS's predecessor, GVK Janani Shishu Suraksha (UP) has faced delays in receipt of payments from the Govt. of U.P resulting in stretched liquidity position for the entity.

**Risk of appointment of new service provider upon expiry of agreement and upon termination:**

The agreement with the State Govt. of U.P is valid up to 5 years from July 15, 2019, unless extended further by mutual agreement. The terms of the contract can be extended for an additional period of same terms and conditions, provided, 102MCS renders satisfactory performance of the service during initial term.

If 102MCS does not get extension from the Government, then Govt. of U.P will float a tender. Considering the past experience, 102MCS has an added advantage in comparison to its probable competitors and the risk of appointment of new service provider is low.

**Competition from local hospitals and other private ambulance service providers**

Currently there is no clear law in India which clearly defines 'ambulance service'. As a result any company/individual can register a vehicle as ambulance if there is a stretcher and oxygen cylinder available on board. Hence there are numerous local / private service providers. Also, major healthcare companies are providing similar services such as Apollo Emergency Care.

However competition intensity is expected to be low as the company provides this service free of cost to the public through the support of state Govt. which other private operates may not be able to match.

#### Liquidity analysis:

**Stretched** - The Govt. of Uttar Pradesh has withheld an amount of Rs.98.29 crore till December 2019 and bank limits of the company are yet to be tied. The same has resulted in stretched liquidity position for the company.

**Analytical Approach:** Standalone. However, CARE in its analysis has factored in operational and financial linkages with GVK EMRI, the flagship entity of GVK group which is providing emergency services across 11 states and 2 UTs in India. 102MCS is a special purpose vehicle of GVK EMRI with later having 51% shareholding in the company.

#### Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology-Consolidation and Factoring Linkages in Ratings](#)

[Rating Methodology-Service Sector Companies](#)

[Financial ratios – Non-Financial Sector](#)

#### About the Company

102 Mother and Child Services (UP) (102MCS) is an entity registered under the provisions of section 8 of the Companies Act 2013. Incorporated on March 20, 2019, 102MCS is a special purpose vehicle of GVK Emergency Management and Research Institute (GVK EMRI) formed to provide transport services to beneficiaries for health services related to pregnancy, antenatal care, delivery and health of neonates and infants to designated facilities under Janani Shishu Suraksha Karyakaram and Janani Suraksha Yojana schemes as per guidelines of the Govt. of India and/or Govt. of Uttar Pradesh. The company commenced its operations from July 15, 2019.

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

**Any other information: Not Applicable**

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

#### 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-Bank Overdraft	-	-	-	14.70	CARE BB; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	18.31	CARE BB; Stable / CARE A4

#### 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Bank Overdraft	LT	14.70	CARE BB; Stable	-	-	-	-
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	18.31	CARE BB; Stable / CARE A4	-	-	-	-

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

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

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