

## Pulikkal Medical Foundation

January 13, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	126.02 (Reduced from 133.09)	CARE A; Stable	Reaffirmed
Short-term bank facilities	12.00	CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The ratings assigned to the bank facilities of Pulikkal Medical Foundation (PMF) continue to derive strength from the vast experience of its promoters in the healthcare industry, established presence of the hospital in the Kochi region, its long track record of operations for over four decades, comfortable capital structure and debt coverage metrics.

The ratings are, however, constrained by revenue concentration from a single hospital, project risk associated with large ongoing debt-funded capex with slowdown in execution of the same, dependence on scarcely available medical professionals and growing competition in the industry.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Ability of the trust to significantly scale up the operations with geographical diversification to above ₹400 crore.
- Ability to improve SBID margin to over 16% on a sustained basis.

#### Negative factors

- Any further slowdown in the projects leading to delay in commencement of operations from the currently expected timeline of July 2023 for the Women and Childcare hospital and January 2024 for the Transplant centre.
- Any stretch in the liquidity position resulting in moderation of debt coverage metrics with total debt/ gross cash accruals (TD/GCA) above 4.5x.
- Any further large debt-funded capital expenditure leading to moderation of capital structure with gearing ratio above 0.5x.

### Analytical approach: Standalone

### Key strengths

#### Vast experience of the 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, 2022. 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 coverage metrics

The capital structure of the Trust remained comfortable at 0.25x as on March 31, 2022, albeit moderated from 0.13x as on March 31, 2021, 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 2.55x as on March 31, 2022 (PY: 2.35x).

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

## Key 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 (90%) of PMF is contributed by the Kochi hospital. MTH faces competition from the 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.

### **Delay in execution of the capex with change in scope of the project**

PMF is setting up a 100-bed hospital specialising in women and child healthcare at a total project cost of ₹81 crore funded by term loan of ₹62 crore and the rest by accruals. The project faced delays due to COVID-19 pandemic as well as due to delay in sanctioning licence for construction of lifts, and hence, the project is expected to be completed by July 2023 as against June 2022 considered earlier.

PMF had also planned to setup a 150-bed hospital specialising in heart, kidney and liver transplant in Ravipuram (200 mtrs from main hospital) at a total project cost of ₹109 crore to be funded by term debt of ₹73 crore and the rest by internal accruals. The project was started in FY21 (refers to the period April 1 to March 31) and was originally planned to be completed by October 2022. However, the construction was stopped for around three months due to a stay order from the court as the adjacent occupant appealed against the construction activities. Subsequently, there was a change in the construction plan, and the project is now expected to be completed by January 2024 as against the earlier estimates of January 2023. The size of the above two projects amounting to ₹190 crore is relatively larger compared to the net worth of the Trust; and its ability to successfully complete the above projects on time without any cost overrun and achieve envisaged occupancy levels in the new hospital remains key to the prospects.

### **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, CARE Ratings continues to monitor the ability of the hospital to retain its current pool.

### **Liquidity: Adequate**

The liquidity is adequate marked by sufficient accruals of ₹23.12 crore in FY22 against repayment obligations of ₹5.96 crore in FY23 and cash balance of ₹13.91 crore as on March 31, 2022. Since most of the transactions are of cash and carry nature and with healthy accruals, the liquidity position of the trust is healthy. Furthermore, the debtors mainly include receivables from insurance companies and other corporates which contribute around 20% of the total income and remaining 80% of the total income is on cash basis. The hospital maintains inventory of medicines and consumables for a period of 10-15 days. The receivables from the insurance companies are received within 10-20 days. The hospital enjoys a credit period of about 36 days from its suppliers. The average working capital utilisation stood low at 20.59% during the past 12 months ended October 2022.

### **Industry outlook**

The long-term outlook for the hospital sector is stable, with annual revenues likely to grow robustly over the next few years on account of rising domestic demand for healthcare as well as medical tourism. During the nationwide lockdown in India on account of the COVID-19 outbreak, restricted patient movement and fear of infection impacted the hospital's operations significantly, with planned procedures dropping by as much as 80% and unplanned procedures reducing by 66%. The hospital segment, however, began to recover post Unlock-1, with occupancy levels going up to 60% of pre-COVID-19 period. Non-metros (Tier-2 and 3 cities) are expected to recover faster than the metropolitan areas and Tier-1 cities, as they were less badly hit by the COVID-19 outbreak.

### **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 Medical Trust Hospital (MTH) in 1973. Subsequently, during 1976, PC was converted into a private limited company and was 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 for charitable purpose and was 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 (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	191.80	236.40	135.31
PBILDT	10.89	22.67	17.76
PAT	3.06	15.33	11.00
Overall gearing (times)	0.13	0.25	NA
Interest coverage (times)	80.06	NM	7.72

A: Audited; UA- Un Audited; NA- Not available; NM- Not meaningful

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

**Any other information:** Not applicable

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

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

**Complexity level of the various instruments rated:** Annexure-4

**Lender details:** Annexure-5

## Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan		-	-	September 2031	126.02	CARE A; Stable
Fund-based - ST-Bank overdraft		-	-	-	5.00	CARE A1
Non-fund-based - ST-BG/LC		-	-	-	7.00	CARE A1

## Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash credit	LT	-	-	-	-	1)Withdrawn (10-Mar-21)	1)CARE A+; Stable (17-Mar-20)
2	Non-fund-based - ST-BG/LC	ST	7.00	CARE A1	-	1)CARE A1 (03-Mar-22)	1)CARE A1 (10-Mar-21)	1)CARE A1 (17-Mar-20)
3	Fund-based - LT-Term loan	LT	126.02	CARE A; Stable	-	1)CARE A; Stable (03-Mar-22)	1)CARE A+; Stable (10-Mar-21)	-

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4	Fund-based - ST-Bank overdraft	ST	5.00	CARE A1	-	1)CARE A1 (03-Mar-22)	1)CARE A1 (10-Mar-21)	-

\*Long term/Short term.

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

**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the 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: Lender details**

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

**Note on the complexity levels of the rated instruments:** CARE Ratings 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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### About us:

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