Lalitha Super Specialities Hospital Private Limited

April 02, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	28.00 (Enhanced from 13.00)	CARE BBB-; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation in the rating assigned to the enhanced bank facilities of Lalitha Super Specialities Hospital Private Limited (Lalitha) continues to derive strength from its promoters' vast experience in the healthcare space, the hospital's long-standing presence in Guntur for over three decades, strong operating profit margins represented by a profit before interest, lease rentals, depreciation and tax (PBILDT) margin of around 20% in FY23, and comfortable financial risk profile. The company's profitability is likely to sustain backed by its operational efficiencies developed over the years and its established presence in offering multi-speciality treatment in Guntur region.

However, rating strengths are partially offset by financial support extended to Lalitha PVS Institute of Medical Sciences Private Limited (Lalitha PVS; project-stage entity) through investments and by extending corporate guarantee towards Lalitha PVS' project debt. Lalitha PVS is setting up 600-bed multi-speciality hospital, wherein the project size is relatively high at ₹356 crore accounting for more than 5x Lalitha's present net worth. Lalitha PVS' ability to timely complete the project and generate envisaged cash flows, remains a key monitorable. The rating continues to remain tempered by geographical concentration risk, small scale of operations, reliance on scarce medical professionals, and growing competition in the industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Steadily growing total operating income (TOI) by more than 30% while maintaining existing profitability margins.
- Reducing exposure towards the group entity on a sustained basis.

Negative factors

- Significantly declining revenue or operating profitability margin by more than 30% y-o-y on a sustained basis.
- Overall gearing deteriorating beyond 0.5x, in future.
- Inability to generate envisaged revenue and cash flows by Lalitha PVS resulting in increased dependence on Lalitha's cash flows.

Analytical approach: Standalone (Support extended to Lalitha PVS by way of Corporate Guarantee is factored)

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that the entity will continue to benefit from the promoters' extensive experience and management in the industry.

Detailed description of the key rating drivers:

Key strengths

Satisfactory profitability margins though small revenue base

The company continues to operate at a small scale. Revenue from operations experienced a decline of around 2% from ₹84.48 crore in FY22 to ₹82.67 crore in FY23, attributable to decline in the revenue from in-patients. However, company maintains healthy profitability margins, with a PBILDT margin of 19.38% in FY23, up from 17.24% in FY22. This improvement is primarily due to better absorption of overhead costs.

Comfortable financial risk profile

The company's financial risk profile remains comfortable, with an overall gearing of 0.55x as of March 31, 2023, compared to 0.39x as on March 31, 2022. This marginal deterioration is primarily due to a higher working capital utilisation at the end of the financial year. However, overall gearing has improved to 0.35x as on December 31, 2023. Other coverage indicators also remain healthy, with an interest coverage ratio of 7.38x and total debt to PBILDT ratio of 1.70x as on December 31, 2023.

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

Promoters' long track record and vast experience in medical field

Dr P. V. Raghava Sarma and Dr P. Vijaya, two of Lalitha's directors, collectively possess about three decades of experience in the healthcare industry. Dr P. V. Raghava Sarma completed his MBBS from JIPMER, Pondicherry in 1984, followed by an MD in Internal Medicine from PGIMER, Chandigarh in 1987. Additionally, he obtained a D.M. in Cardiology from PGIMER, Chandigarh in 1989, specialising in interventional cardiology. He is renowned for his expertise in acute angioplasty and is credited with establishing the first cardiac Cath lab and bypass surgery centre in Guntur. He serves as an advisory member in the Indian Heart Journal and holds fellowship positions in the American College of Cardiology (F.A.C.C) and the European Society of Cardiology (F.E.S.C). Lalitha is a family-owned business, with all the promoters, Dr Vijaya, Dr Anurag, Dr Sravanti, and Dr Naren, belonging to the same family. Each member brings valuable experience from the healthcare industry to the organisation.

Association of experienced doctors and tie-ups with corporates

Lalitha has a team of doctors associated with the hospital over the years, who are specialised in their respective fields. Lalitha has entered tie-ups with many reputed corporates. The company has also made arrangements with top third-party administrators (TPAs). Some of its corporate clients include APTRANSCO, State Bank of India, Union Bank of India, ITC Limited, BSNL and FCI, among others. Also, some of the medical insurance companies and TPAs with which the company has tied up include Medi Assist, Raksha, Alankit, East West Assist TPA, I Care Health Solutions and Med Save India, among others. The hospital is registered with various programmes of Aarogyasri (a programme of the Government of Andhra Pradesh which covers patients belonging to below poverty line) and employee health scheme among others.

Key weaknesses

Advances and corporate guarantee extended to Lalitha PVS

The company has extended a corporate guarantee amounting to ₹232 crore to its group entity, Lalitha PVS, which is currently constructing a 600-bed multi-speciality hospital with a total project cost of ₹356 crore. Any cost overrun is likely to be borne by the promoters. Lalitha PVS' inability to generate sufficient cashflows post completion of the project may impact the company's financial risk profile and hence remains critical from credit rating perspective.

Geographical concentration risk

Despite being in operation for more than two decades and enjoying continued patronage from the local population, the company's entire revenue is contributed by Guntur hospital. Hence, it has a geographical concentration risk considering its presence only in one location.

Growing competition in the industry

The company 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. However, the competition is mitigated to larger extent since the company is one of the renowned hospitals in Guntur. It is a multi-speciality hospital providing wide services includes Cardiology, Neurology, Radiology, Nephrology and Pulmonology, among others. Considering intense competition, the company's prospects would depend upon its ability to profitably scale up the operations and success rate in treatment of complex cases, to attract patients and increase occupancy.

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. The company is highly dependent on scarcely available medical professionals. Given the increasing competition and the scarcity of medical specialists, CARE Ratings continues to monitor the hospital's ability to retain its current pool.

Liquidity: Adequate

The company is able to generate sufficient cash flows to meet operational needs and service interest obligations, marked by cash flow from operations (CFO) of ₹30 crore for FY23. Average utilisation of working capital limits remains moderate, standing at 51% for the 12 months ended January 2024. The company's operating cycle continues to remain comfortable at negative 33 days due to stretched creditor days. Due to long presence in the market, the company is able to avail credit period from its suppliers.

Applicable criteria

Definition of Default
Factoring Linkages Parent Sub JV Group
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Hospital
Financial Ratios – Non financial Sector

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Healthcare	Healthcare	Healthcare services	Hospital

Lalitha, incorporated in 1999, has been promoted by Dr P V Raghava Sarma and Dr P Vijaya. The company is a renowned multi-speciality hospital located in Guntur, Andhra Pradesh. Currently, the hospital has an operating capacity of 250 beds, 60 beds in Intensive Care Unit (ICU), 10 for critical care treatment, and 180 beds in General ward. The hospital is equipped with state-of-the-art equipment and well-qualified and experienced doctors/surgeons.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9M-FY24 (UA)
Total operating income	84.48	82.67	71.52
PBILDT	14.57	16.02	15.21
PAT	8.82	8.64	8.72
Overall gearing (times)	0.39	0.55	0.35
Interest coverage (times)	21.92	6.04	7.38

A: Audited, UA: Unaudited. Note: 'these are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer to 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: 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-Cash credit		-	-	-	8.30	CARE BBB-; Stable
Fund-based - LT-Term loan		-	-	Feb 2029	19.70	CARE BBB-; Stable

Annexure-2: Rating history for 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 2023-2024	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
1	Fund-based - LT-Term loan	LT	19.70	CARE BBB-; Stable	1)CARE BBB-; Stable (19-Mar-24)	1)CARE BBB-; Stable (21-Feb-23) 2)CARE BBB-; Stable (29-Apr-22)	-	-
2	Fund-based - LT-Cash credit	LT	8.30	CARE BBB-; Stable	1)CARE BBB-; Stable (19-Mar-24)	1)CARE BBB-; Stable (21-Feb-23) 2)CARE BBB-; Stable (29-Apr-22)	-	-

*LT: Long term

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

Annexure-4: Complexity level of various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based - LT-Term loan	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of all the entities consolidated: Not applicable

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.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Saikat Roy Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3404 E-mail: saikat.roy@careedge.in	Karthik Raj K

About us:
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