Pradhama Multi Speciality Hospitals and Research Institute Limited

July 30, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	81.90 (Reduced from 130.00)	CARE BBB-; Stable	Revised from CARE BB+; Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in the rating assigned to bank facilities of Pradhama Multi Speciality Hospitals and Research Institute Limited (PMSL) is primarily considering deferment of the management's plan to convert unsecured loans of ₹26.53 crore in lease rental discounting (LRD) facility of ₹30 crore (including interest portion of unsecured loan), which could have led to additional burden of repayment on cashflow. The rating continues to draw comfort from fixed rental payment for 15 years with lock-in period of five years, moderate counterparty credit risk of the tenant having successful operations of managing hospitals in Andhra Pradesh, Telangana and Maharashtra, favourable location, presence of debt service reserve account (DSRA) and escrow mechanism, comfortable loan to value ratio. However, the rating is tempered by negative net worth, moderate debt coverage indicators and short track record of promoters in managing commercial real estate.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- LRD facility to profit before interest, lease rentals, depreciation, and taxation (PBILDT) below 3.5x on a sustained basis.
- Significantly building of reserves for repayment of security deposits.

Negative factors

- Withdrawal of funds by promoters/directors leading to strain in liquidity.
- Changing lease terms or additional debt leading to lower debt coverage.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that the company will continue to benefit from the satisfactory operation of its tenant, converting to timely rentals.

Detailed description of key rating drivers:

Key strengths

Client with moderate counterparty credit risk

Sahrudaya Health Care Private Limited (SHPL) provides tertiary healthcare services across specialities, with primary focus on cardiology, orthopaedics, neurology, gynaecology, and paediatrics. It operates 24 hospitals across Telangana, Andhra Pradesh, and Maharashtra with an operational bed capacity of 4,378 as on June 30, 2023, under the brand name "Medicover". SHPL derives strength from its ultimate parent entity Medicover AB, a Swedish entity providing healthcare services from 1995, which has a shareholding of 64.2% as on March 31, 2024, in SHPL. Medicover has been supporting SHPL through equity infusion and extending loans for expansion. PMSL entered a leasing agreement with SHPL in 2021.

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

Fixed monthly rental payment for 15 years having lock-in period of five years

PMSL has entered a lease agreement with SHPL and has leased its entire area of 5.27 lsf for 15 years commencing from April 19, 2021, having lock-in period of five years to SHPL. Per the lease agreement, SHPL will pay monthly rental having scheduled fixed amount to PMSL and will operate hospital under its brand name ("Medicover"). In FY24, the company received ₹21.00 crore of rentals for 12 months. Per the lease agreement, SHPL will take up all operational costs including repairs, and electrical charges, among others. PMSL is liable to pay the property tax and other statutory liabilities for building. CARE Ratings opines that the presence of fixed payment schedule and operating costs is being taken up by SHPL provides certainty in cashflows, eliminating revenue risks and volatility in operating costs.

Presence of structured payment mechanism with DSRA in place

Per the waterfall mechanism defined in lending arrangement, all rentals and other receipts are to be deposited in the escrow account, from which, interest and principal get first priority followed by replenishment of DSRA, statutory payment including property tax, and GST among others. 50% surplus to be utilised towards accelerated repayment and the surplus available will be released to the company. The company created lien marked fixed deposits of ₹3.64 crore against the total DSRA requirement of ₹3.50 crore (covering three months interest and principal obligation) as on June 30, 2024.

Grade-A property with location advantage

The property is at Housing Board Colony, Visakhapatnam, which is accessible at 15 km from airport, bus station – five km and railway station – eight km. The hospitality is in densely populated area, where many residential and infrastructure development activities are being carried out. The property's age is about six years having good infrastructure facilities.

Key weaknesses

Short track record of promoters in managing commercial properties

PMSL is promoted by Dr Visweswara Rao Pusarla, Dr K Ramamurthy Kummaraganti and his family. Though, promoters are experienced in managing hospital operations for over three decades, they have a short track in leasing commercial properties. Comfort is derived from the infusion of unsecured loans to the extent of ~₹22 crore by promoters to support the company, which is outstanding as on March 31, 2024.

Leveraged capital structure with comfortable debt coverage metrics

Total debt comprises of LRD and unsecured loans brought in by directors of the company. Due to losses incurred, the company carries a negative networth as on March 31, 2024. Security deposit of ₹27 crore received from SHPL is payable without interest or deductions post lock-in period/tenor of the lease or termination of the lease deed. In FY25, it is estimated that LRD/rental will stand at 3.90x, LRD/Valuation at 0.41x followed by LRD/PBILDT at 4.03x, and it is expected to improve going forward with the reduction in LRD facility.

Liquidity: Adequate

Adequate liquidity is characterised by strong monthly rental collection of ₹1.75 crore as against monthly average interest and principal obligation of ₹1.20-1.25 crore. The company has created lien marked fixed deposit of ₹3.64 crore of DSRA. The company has cash and bank balance of ₹5.66 crore as on March 31, 2024.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Rating methodology for Debt backed by lease rentals
Rating methodology for Real estate sector

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Consumer discretionary	Realty	Realty	Residential, commercial projects

PMSL was incorporated in 2014 to set up a multi-speciality hospital at Visakhapatnam with a bed capacity of 650. It is one of the largest hospitals in Andhra Pradesh. The company is promoted by Dr V Visweswara Rao Pusarla, Dr K Ramamurthy Kummaraganti and his family. PMSL entered a lease agreement dated April 19, 2021, with SHPL, which is a subsidiary of Medicover AB, a company incorporated in Sweden ("Medicover"). PMSL leased the entire area of 5.27 lsf for 15 years commencing from April 19, 2021, having lock-in period of five years to SHPL.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (UA)
Total operating income	21.00	21.31
PBILDT	19.01	20.00
PAT	1.49	8.36
Overall gearing (times)	-10.61	-35.67
Interest coverage (times)	1.43	2.57

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA:
CRISIL has placed the rating for PMSL's bank facilities under 'CRISIL D; INC' vide its PR dated November 23, 2023, due to the absence of requisite information from the company.
India Ratings has placed the rating for PMSL's bank facilities under 'IND D; INC' vide PR dated December 27, 2023, due to the absence of requisite information from the company.
Acuite has placed the rating for PMSL's bank facilities under 'Acuite D; INC' vide PR dated July 14, 2023, due to the absence of requisite information from the company.
Brickwork has placed the rating for PMSL's bank facilities under 'Brickwork D; INC' vide PR dated May 08, 2024, due to the absence of requisite information from the company.

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument/facility: Annexure-3

Complexity level of 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-Lease rental discounting/ Rent Receivables Financial		-	-	31-05-2032	81.90	CARE BBB-; Stable

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amont Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	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
1	Fund-based - LT-Lease rental discounting/ Rent Receivables Financial	LT	81.90	CARE BBB-; Stable	-	1)CARE BB+; Stable (24-Aug-23)	1)CARE BBB; Stable (26-Oct-22)	-

LT: Long term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Lease rental discounting/ Rent Receivables Financial	Simple

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated: Not applicable

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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