Sterling Addlife India Private Limited

December 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	177.05 (Reduced from 211.15)	CARE A-; Negative	Reaffirmed
Long-term / Short-term bank facilities	35.00 (Enhanced from 25.00)	CARE A-; Negative / CARE A2+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Sterling Addlife India Private Limited (SAIPL) continue to derive strength from the experienced and professional management and the company's strong presence in major cities of Gujarat. Ratings also factor in comfortable capital structure, adequate liquidity and favourable long-term outlook for the healthcare sector in India.

CARE Ratings Limited (CARE Ratings) considers muted profitability and debt coverage indicators in H1FY25 (H1 refers to April 01 to September 30) due to operational issues including exits of some doctors at key hospitals. However, with the completion of the majority up-gradation capex and implementation of the several operational improvement measures by management including hiring of new doctors, CARE Ratings expects growth in revenue and sustained improvement in profitability.

Ratings continue to remain constrained due to its moderate scale of operations with modest occupancy, its presence in a competitive industry, and challenges pertaining to attracting and retaining quality doctors.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant improvement in occupancy rates across all its hospitals, leading to healthy growth in its total operating income (TOI) while maintaining its profit before interest, lease, depreciation, and tax (PBILDT) margin above 18% and return on capital employed (ROCE) above 22%.

Negative factors

- Decline in the PBILDT margin below 12% on a sustained basis and total debt to gross cash accruals (TD/GCA) remaining above 5x.
- Deterioration in capital structure marked by overall gearing of over 0.85x on a sustained basis.

Analytical approach: Standalone

Outlook: Negative

Continuation of 'Negative' outlook is due to lower-than-envisaged recovery in profitability in the H1FY25 and current full year FY25 as well, which continued to exert pressure on the company's financial risk profile.

The outlook may be revised to stable, if SAIPL reports higher-than-anticipated growth in scale with improved profitability translating in improved gross cash accruals (GCA) levels and debt coverage indicators.

Detailed description of key rating drivers:

Key strengths

Strong presence in healthcare across major cities of Gujarat

SAIPL has presence in four major cities of Gujarat. It operates four multi-specialty hospitals under the name 'Sterling' with flagship hospital in Ahmedabad (since 2001) and other hospitals in Vadodara (since 2006), Rajkot (since 2009), and Gandhidham (since 2016), and two oncology hospitals, one each in Ahmedabad (since 2018) and Vadodara (since 2018). All these hospitals have favourable locations in proximity to well-established residential and commercial localities with sizeable operational beds. The operational beds in four locations (including oncology hospitals) as on March 31, 2024, stood at 247 (Ahmedabad), 149 (Vadodara), 165 (Rajkot) and 90 (Gandhidham) with 893 census beds which can be converted to operational beds without major cash outflows. Also, SAIPL has potential to reach up to 950+ bed capacity with conversion of admin floors for health care purposes. The company has a diversified revenue base with each of its zone contributing to overall revenue viz. Ahmedabad (42% in FY24), Vadodara (20%) and Rajkot including Gandhidham (38%).

Sterling hospitals are multi-specialty tertiary-care hospitals (excluding Gandhidham, which is secondary-care) having integrated infrastructure with specialisation in segments, including cardiology, neurology, gastroenterology, orthopaedics, critical care,

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

nephrology, and oncology, among others. In FY24, SAIPL earned ~78% of its TOI through in-patient revenue while the remaining was from out-patient revenue and other income (medicines).

In FY24, inpatient revenue increased by ~16% on year-over-year (y-o-y) basis, whereas outpatient revenue largely remained similar. Improvement in inpatient revenue was due to increase in average length of stay (ALOS). However, inpatient admission counts were moderated in FY24 due to major up-gradation capex at the Ahmedabad and Vadodara hospital. SAIPL's operations were also impacted in FY24 and Q1FY25 due to suspension of the Vadodara oncology hospital for 4-5 months under Pradhan Mantri Jan Arogya Yojana (PMJAY), whereas Rajkot hospital was under observation. However, suspension has been revoked from Vadodara oncology hospital in April 2024 and improvement in performance is observed in Q2FY25 on q-o-q basis.

SAIPL has a diverse payer mix and earned 23% of its TOI from government (mainly includes 'MA Yojana' and 'Ayushman Bharat'), 16% from corporates (majorly includes government organisations), 28% from third-party administrators (TPAs), and the remaining 32% from private patients in FY24. ONGC, Western railways, and Gujarat Vij companies remain the company's top three corporate clients.

Moderate profitability and debt coverage indicators, despite remained adequate

In past two years, SAIPL's profitability remained moderate at ~10.34% in FY23, ~9.51% in FY24 and ~8.70% in H1FY25. While profitability in FY24 was aligned with the envisaged level, it continued to remain moderate in H1FY25 due to several operational issues and significant increase in the fixed cost due to hiring of new doctors.

SAIPL's profitability also depends on the types and numbers of surgery undertaken and its revenue mix. SAIPL records long-term lease charges as finance lease. With the increase in the depreciation and interest and finance cost, SAIPL reported net losses in H1FY25 against profit after tax (PAT) margin of 0.84% in FY24 (FY23: 0.65%).

Consequently, SAIPL reported GCA of ₹30.80 crore in FY24 (₹25.95 crore in FY23) and ₹11.66 crore in H1FY25.

SAIPL's overall cost (with the major component being doctor charges) is expected to rationalise gradually with envisage revenue growth. Also, with the completion of major upgradation capex at major hospitals, occupancy rates are expected to improve. CARE Ratings expects the occupancy rates to improve to 50-55% in the near-to-medium term, driving revenue growth. With the envisaged improvement, the PBILDT margin is expected to improve gradually to ~13-14%, which will remain crucial from the credit perspective.

With moderation in profitability, debt coverage indicators also moderated, marked by a PBILDT interest coverage and TD/GCA of 2.99x and 5.71 years, respectively, in FY24 and 2.33x and 7.81x, respectively in H1FY25. However, this continued to remain adequate.

Comfortable capital structure

The company's total debt (TD) increased from ₹146.90 crore as on March 31, 2023, to ₹174.05 crore as on March 31, 2024, and ₹177.06 crore as on September 30, 2024, due to planned drawdown of the debt for the up-gradation capex at Ahmedabad and Vadodara hospitals and for the replacement/procurement of medical equipment. With increase in TD in the last three years, SAIPL's capital structure moderated, however, it continued to remain comfortable, marked by an overall gearing of 0.79x as on March 31, 2024, and 0.83x as on September 30, 2024.

With completion of major capex, part-prepayment of term loan in FY24 and H1FY25 and no additional debt-availment plan, CARE Ratings expects sustained improvement in the SAIPL's capital structure going forward.

Experienced and professional management

In June 2022, a group of private equity (PE) players led by Arpwood Partners and Singapore-based Tamarind Capital Private Limited and others acquired majority stake in SAIPL through Arcturos Healthcare Private Limited (AHPL) and holds 92.79% as on March 31, 2024, with the balance 6.94% equity stake continued to be held by erstwhile promoters.

The PE firm has restructured the board of directors, which now comprises four members including two nominee directors, an independent director, and a managing director (MD) and chief executive officer (CEO).

Dr Simmardeep Singh Gill has been appointed as MD and CEO. He is a seasoned professional with over 20 years of experience in the healthcare industry with his association with leading hospital institutes such as Fortis Healthcare Limited and CK Birla Group of Hospitals.

Favourable long-term outlook for healthcare sector in India

The hospital and health services industry is the largest component of the Indian healthcare sector, comprising 70% of the sector. The industry's expansion continues to be fuelled by the rising need for healthcare services due to increasing prevalence of chronic diseases, changing lifestyles of the Indian population, rising middle class income, expansion of health insurance coverage and rise in medical tourism among other. Private sector is the major contributor in the healthcare spending in India, unlike most other countries where public spending dominates.

In Union Budget 2024-25, government has allocated ₹90,659 crore towards healthcare sector, which reflects 13% rise over the revised estimates of FY24. India Brand Equity Foundation, (Trust established by Ministry of Commerce and Industry, Government of India) expects India's hospital market to grow at a compound annual growth rate (CAGR) of 8.0% from 2024 to 2032, reaching an estimated value of US$ 193.59 billion by 2032. Also, the Indian healthcare sector is witnessing unprecedented growth, with private equity and venture capital investments surpassing US$ 1 billion in the first five months of 2024, marking a 220% increase from the previous year.

Key weaknesses

Moderate scale of operations

SAIPL continued to operate on a moderate scale, with its TOI of ~₹498 crore in FY24 which grew by 13% year-over-year (y-o-y) compared to ₹441 crore in FY23. The growth in scale of operations was led by better occupancy and stable average revenue per occupied bed (ARPOB). However, overall inpatient (IPD) and outpatient (OPD) count moderated by ~12% and 5%, respectively in FY24 over FY23 owing to upgradation capex at major hospitals and operational issues at Rajkot and Vadodara oncology hospitals impacting admissions. Also, ARPOB remained largely stable y-o-y at ₹42,085 (on IPD) in FY24 compared to ₹41,688 in FY23.

In H1FY25, SAIPL achieved a TOI of ₹253.76 crore against ₹241.97 crore in H1FY24 with improvement in occupancy. With operations resuming at major part of Ahmedabad hospital and ramp up of operations at Vadodara oncology and Rajkot hospitals, the occupancy rate is expected to improve from H2FY25 and with this, CARE Ratings expects TOI of ~₹550-560 crore for the full year FY25.

Modest occupancy levels, which improved in FY24 and H1FY25

SAIPL's occupancy level remained modest, which improved from 34% in FY23 to 39% in FY24 owing to increase in occupancy levels across all locations (except in Gandhidham), especially in oncology segment - Ahmedabad (oncology) from 21% to 41% and Vadodara (oncology) from 18% to 33% in FY24. Also, occupancy levels at hospital with over 70% bed capacity also increased – Ahmedabad (multi-speciality) from 37% to 41%, in Rajkot (multi-speciality) from 34% to 39% and in Vadodara (multi-speciality) from 25% to 39% in FY24.

With completion of major upgradation at Vadodara and Ahmedabad (multi-speciality) hospital in FY24, its occupancy rate improved significantly in H1FY25 to 56% and 49%, respectively. Despite operational issues at Vadodara oncology and Rajkot hospital in H1FY25, the occupancy rate improved to 53% and 49% respectively supported by change in revenue mix whereas occupancy rate at Ahmedabad (oncology) remined stable.

Ahmedabad and Vadodara hospitals have good ALOS in the range of 4-5 days, however, SAIPL's overall ALOS remains moderate at ~3.70 days in FY24 (FY23: 3.60 days), mainly due to relatively lower ALOS at Rajkot and Gandhidham hospitals where complex surgeries are being less operated.

Challenges of retaining medical professionals and competitive landscape

SAIPL faces competition from existing and new players (mainly in Ahmedabad and Vadodara) from other multi-speciality hospitals. The hospital industry also faces challenges of attracting and retaining qualified doctors and medical personnels. Due to scarcity of trained medical practitioners, including doctors owing to the increasing competitive intensity, it becomes relatively difficult to attract and retain skilled pool of talent. SAIPL has a dedicated team of full-time doctors that practice in therapeutic areas. If a renowned doctor disassociates himself or herself from a hospital, it has high probability of impacting the hospital's performance. The hospital sector is fragmented with a few large players in the organised sector and numerous small players in the unorganised sector, leading to high level of competition. Thus, differentiating factors such as range of services offered, quality of service, pedigree of doctors, and success rate in treatment of critical and complex diseases among others remains crucial for attracting patients and increasing occupancy.

Liquidity: Adequate

SAIPL has adequate liquidity, marked by adequate cash accruals against low debt repayment obligations, supported by longer moratorium as well as longer maturity of long-term debt. SAIPL is expected to earn GCA of ₹35-37 crore against debt repayment obligation of ₹14.36 crore in FY25. Of total scheduled repayment obligation in FY25, SAIPL had already pre/repaid ₹13.99 crore in H1FY25. Average utilisation of its fund-based working capital limits remained very low at ~6% for last 12 months ended October 2024. It had a cash and bank balance of ₹12.06 crore (excluding lien-marked fixed deposits) as on September 30, 2024.

Cashflow from operations, though moderated, remained adequate at ₹36.97 crore in FY24 compared to ₹45.68 crore in FY23. The liquidity indicators, marked by current ratio and quick ratio remained stable y-o-y and stood at 1.07x and 1.00x, respectively, as on March 31, 2024. SAIPL's operating cycle remained stable y-o-y and lean at 11 days in FY24 (FY23: 11 days).

Assumptions/Covenants: Not applicable

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

Applicable criteria

[Definition of Default]
[Liquidity Analysis of Non-financial sector entities]
[Rating Outlook and Rating Watch]
[Hospital]
[Financial Ratios – Non financial Sector]
[Short Term Instruments]

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Healthcare	Healthcare	Healthcare services	Hospital

Incorporated in December 2000, SAIPL (CIN: U85110GJ2000PTC039121) was initially promoted by Paras Pharmaceuticals Limited (PPL), a leading pharmaceutical OTC product company based in Ahmedabad. In 2007, Actis PE (Actis), a UK-based private equity (PE) firm picked up 81.68% equity stake in SAIPL. Subsequently, in February 2014, Actis sold its entire shareholding in SAIPL back to Girish Patel, erstwhile PPL's promoter. Moreover, in October 2016, under the scheme of arrangement of amalgamation (reverse merger), Addlife Investment Private Limited (AIPL), SAIPL's holding company was amalgamated on April 1, 2016. In June 2022, a group of private equity (PE) players led by Arpwood Partners and Singapore-based Tamarind Capital Private Limited and others acquired majority stake in SAIPL through Arcturos Healthcare Private Limited and holds 92.79% as on March 31, 2024, with the balance 6.94% equity stake continued to be held by erstwhile promoters.

The company operates multi-specialty hospitals under the name of 'Sterling Hospital' in three major cities of Gujarat, including Ahmedabad, Vadodara, and Rajkot, which are tertiary-care multi-specialty hospitals, while its hospital at Gandhidham is a high-end secondary care set-up.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (Prov.)
Total operating income	441.00	497.83	253.76
PBILDT	41.62	43.33	22.07
PAT	2.86	4.21	-2.96
Overall gearing (times)	0.68	0.79	0.83
Interest coverage (times)	3.26	2.99	2.33

A: Audited; Prov.: Provisional; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of 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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT/ ST-Bank Overdraft	-	-	-	-	35.00	CARE A-; Negative / CARE A2+
Term Loan-Long Term	-	-	-	July 2032	177.05	CARE A-; Negative

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 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	Term Loan-Long Term	LT	177.05	CARE A-; Negative	-	1)CARE A-; Negative (22-Jan-24)	1)CARE A-; Stable (14-Nov-22) 2)CARE A-; Stable (12-Sep-22) 3)CARE A- (CW with Developing Implications) (11-Jul-22)	1)CARE A-; Stable (23-Jun-21)
2	Fund-based - LT/ ST-Bank Overdraft	LT/ST	35.00	CARE A-; Negative / CARE A2+	-	1)CARE A-; Negative / CARE A2+ (22-Jan-24)	1)CARE A-; Stable / CARE A2+ (14-Nov-22) 2)CARE A-; Stable / CARE A2+ (12-Sep-22) 3)CARE A- / CARE A2+ (CW with Developing Implications) (11-Jul-22)	1)CARE A-; Stable / CARE A2+ (23-Jun-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short 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/ ST-Bank Overdraft	Simple
2	Term Loan-Long Term	Simple

Annexure-5: Lender details

To view details of bank facilities please click here

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.

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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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