

## Arete Institute of Medical Sciences Private Limited

March 25, 2025

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	100.00	CARE BB-; Stable	Assigned

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

Ratings assigned to bank facilities of Arete Institute of Medical Sciences Private Limited (Arete) is constrained by leveraged capital structure with presence of term debt and low net worth base considering accumulated losses, geographical concentration risk, dependence on scarcely available qualified medical professionals and intense competition with pricing pressures.

However, the rating weaknesses are partially offset by qualified and resourceful promoters, infusion of funds to support the operations and timely debt repayment obligations, improvement in operational performance with increase in inpatient (I/P) admission and outpatient (O/P) registrations by over 2.8x and 2.5x respectively in 9MFY25, experienced doctors and steady non-discretionary demand for healthcare services.

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

#### Positive factors

- Stabilisation of operations with reporting envisaged scale of operations and profitability.
- Significant improvement in tangible net worth.

#### Negative factors

- Delays in scaling up of operations leading to significant decline in revenue.
- Un-envisaged debt funded capex going forward.

**Analytical approach:** Standalone

#### Outlook: Stable

CARE Ratings Limited (CARE Ratings) expects that the entity will continue to benefit from its experienced promoters and doctors.

### Detailed description of key rating drivers:

#### Key weaknesses

##### Leveraged capital structure

The company's capital structure is highly leveraged due to the presence of term debt and a lower net worth base, resulting from accumulated losses. Net worth is expected to turn negative in the current fiscal due to continued losses. However, promoters have infused funds through unsecured loans and compulsory convertible debentures (CCDs) to support operational losses and debt repayment obligations.

##### Geographical concentration risk

Arete operates a single hospital, making its revenue entirely depend on one location. This concentration increases vulnerability to operational disruptions such as local infrastructure issues, natural calamities, or regulatory changes that could impact patient inflow and hospital operations. Fixed costs remain constant regardless of fluctuations in occupancy or service demand at this location, which could affect profitability from lower patient volumes. However, hospital is in Gachibowli, a major technology and business district, providing access to a large corporate and urban population.

##### Dependence on scarcely available qualified medical professionals

The hospital's operations depend on availability of highly qualified medical professionals, particularly in specialised fields such as orthopaedics, oncology, and neurosurgery. Given the limited pool of experienced doctors in these areas, attracting and retaining talent remains a key consideration. The hospital follows a hybrid compensation model, combining a retainer fee with fixed fees for services rendered. This structure provides financial stability for doctors aiding in the retention of experienced medical professionals.

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

### Intense Competition and Pricing Pressures

The hospital operates in a highly competitive healthcare market, facing pressure from established multi-specialty hospitals, specialty clinics, and government healthcare facilities. Competition extends to attracting patients and retaining skilled medical professionals. Pricing pressures arise due to negotiated rates with insurance providers, corporate tie-ups, and patient affordability concerns. The need to balance competitive pricing with high-quality care and operational sustainability remains a key challenge.

### Key strengths

#### Experienced and qualified promoters

The hospital is led by a team with experience in healthcare, entrepreneurship, and infrastructure development. Promoters have infused funds through unsecured loans and CCDs to support operations in the initial phase. As of December 31, 2024, unsecured loans stood at ₹42.76 crore, and CCDs at ₹57.70 crore. Dr Vijender Reddy Teegala (MBBS, MS Ortho, M Ch Ortho) is an orthopaedic surgeon specialising in joint replacements with experience of over 20 years and has previously worked at Apollo Hospitals and KIMS. Srinivas Chakravarthi Gutta, the Managing Director, has experience in IT consulting, healthcare diagnostics, and media. Prabhakar Raju Konda, the Executive Director, has been involved in infrastructure development and project execution, including work at ALPS Infra in railway and expressway projects.

#### Improving operations despite initial losses

In FY24, the company recognised a revenue of ₹24.02 crore, with the hospital being operational from September 2023. Occupancy rate remained on the lower side due to the initial phase of operations. In 9MFY25, revenue improved to ₹70.89 crore, supported by an increase in occupancy rates to 40% (FY24: 25%) and increase in O/P registrations by over 2.5x respectively. Given the presence of high fixed costs and the current scale of operations, the company incurred a loss of ₹33.85 crore in FY24 and ₹47.16 crore in 9MFY25. However, there is support from promoters to fund the cash flow shortfall.

#### Experienced doctors and tie-ups with corporates

Arete has onboarded specialist doctors as consultants, including those with prior experience at hospitals such as Apollo, KIMS, and Care. Arete has tie-ups with reputed corporates such as NTPC, NMDC, ONGC, and ITC, ensuring smooth and timely collections without payment delays. The hospital does not operate under government healthcare schemes, mitigating risks related to delayed reimbursements.

#### Steady and non-discretionary demand for healthcare services

Healthcare is a fundamental necessity, and demand for medical services remains largely inelastic, unaffected by economic downturns. Unlike discretionary sectors, hospitals experience consistent patient footfall, driven by emergency and elective treatments. Rising awareness about preventive healthcare, an increase in non-communicable diseases such as diabetes and cardiovascular conditions, and an aging population further ensure stable long-term demand for hospitals.

#### Liquidity: Stretched

Liquidity remains stretched, impacted by losses incurred in FY24 and 9MFY25. Debt repayment obligations are being met through promoter support in the form of unsecured loans and CCDs. The company's reliance on bank borrowings for working capital remains high, with an average utilisation of 90% for 12 months ending December 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](#)

[Hospital](#)

[Financial Ratios – Non financial Sector](#)

### About the company and industry

#### Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Healthcare	Healthcare	Healthcare services	Hospital

Incorporated in 2021, Arete operates a multi-specialty hospital under the brand name Arete Hospitals. The hospital spans over 3 lakh square feet across 14 floors with a total capacity of 280 beds, of which, over 130 beds are currently operational. The hospital commenced operations in September 2023 and has onboarded senior specialist doctors as consultants from reputed institutions such as KIMS and Apollo.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	9M-FY25 (UA)
Total operating income	0.00	24.02	70.89
PBILDT	-0.10	-23.74	-33.15
PAT	-0.01	-33.85	-47.16
Overall gearing (times)	1.31	99.55	NM
Interest coverage (times)	0.00	-6.99	NM

A: Audited, UA: Unaudited, NM: Not Meaningful. 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	32.81	CARE BB-; Stable
Fund-based - LT-Term Loan		-	-	June 2031	67.19	CARE BB-; 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 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-Term Loan	LT	67.19	CARE BB-; Stable				
2	Fund-based - LT-Cash Credit	LT	32.81	CARE BB-; Stable				

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-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple

**Annexure-5: Lender details**

To view lender-wise 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](mailto:care@careedge.in) for clarifications.

## Contact us

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### About us:

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### Disclaimer:

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