Asarfi Hospital Limited

March 22, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	25.00	CARE BB; Stable (Double B; Outlook: Stable)	Assigned
Total Bank Facilities	**25.00 (Rs. Twenty-Five Crore Only)**		

**Details of facilities in Annexure-1*

Detailed Rationale and key rating drivers

The rating assigned to the bank facilities of **Asarfi Hospital Limited (AHL)** is constrained by small scale of operation, limited geographical reach and competition from established players in the region and highly regulated by the government and other bodies with reputational risk. The rating, however, derives comfort from experienced promoters, healthy operational parameters with strong occupancy rate, steady average length of stay (ALOS) and moderate average revenue per occupied bed (ARPOB) and healthy profitability margins and comfortable overall solvency position.

Key Rating Sensitivities

Positive factors

- Sizable increase in scale of operation (revenue beyond Rs.75 crore) while maintain its current profitability margins on a sustained basis.
- Achieve financial closure for the debt portion of the project on time, complete the expansion project as envisaged; achieve the envisaged revenue and margins on a sustained basis.

Negative factors

- Any sizable de-growth in scale of operation (turnover below Rs.25 crore) along with decline in operating margin reaching below 10% on a sustained basis.
- Any major delay in achievement in financial closure for the debt portion of the project; delay in completion of the expansion project with major cost and time overrun.

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operation: The scale of operation of the company remained small marked by total operating income of Rs.43.06 crore (FY19: Rs.31.51 crore), PAT of Rs.2.76 crore (FY19: Rs.1.78 crore) in FY20. However, the total operating income has witnessed continuous growth during last three years (FY18-FY20) at a CAGR of 18.65% on account of high demand of its services in the region. Further, the tangible networth base also remained moderate at Rs.13.48 crore as on March 31, 2020. The small size restricts the financial flexibility of the firm in times of stress and deprives it from benefits of economies of scale.

There was no restriction on the operation of the company as it runs a hospital even though lockdown was imposed in the country. Accordingly, the operation of the company was not impacted and it is running as usual. However, the footfall of OPD patients were slowed initially owing to COVID 19. Moreover, the same is improving month on month basis now. The company has booked a revenue of Rs.43.14 crore during the period from April 01, 2020 to February 28, 2021.

Risk associated with expansion project: The company has planned to come with comprehensive cancer hospital with the facility of 100 beds, which have Radiation Oncology, Medical Oncology and Surgical Oncology departments for treatment of Cancer and the requisite high-end diagnostics and radiotherapy facilities to complete care to the patient under one roof. The total project cost is estimated to be Rs.73.14 crore, which will be funded through term loan of Rs.45.00 crore and balance Rs.28.14 crore through promoter's contribution and internal accruals. The company has already acquired land of 9.55 acre from Jharkhand government on lease. Further, the company has already spent Rs.4.73 crore (i.e. 6.47% on total project cost) on the aforesaid expansion till February 28, 2021, funded by promoters' contribution and the project is estimated to be completed by March, 2023. Moreover, the financial closure for the debt portion of the expansion project is yet to be tied up. Going forward, the ability of the company to achieve financial closure of the project on time and complete the expansion project as envisaged and thereafter derive benefit out of it as envisaged will remain crucial for the company.

Limited geographical reach and competition from established players in the region: The company is operating a single hospital in Dhanbad (Jharkhand). This limits the ability to tap opportunities and revenue. Further, though the hospital has an established health care service and emergency service, it faces stiff competition from several other private hospital chains. This leads to competition not only in acquiring patients, but also in attracting medical professionals.

Highly regulated by the government and other bodies with reputational risk: Healthcare sector is highly regulated requiring various statutory approvals. Moreover, healthcare is a highly sensitive sector where any mishandling of a case or negligence on part of any doctor and/or staff of the unit can lead to distrust among the masses. Thus, all the healthcare providers need to monitor each case diligently and maintain standard of services in order to avoid the occurrence of any unforeseen incident. They also need to maintain high vigilance to avoid any malpractice at any pocket**.**

Key Rating Strengths

Experienced promoters: The company is managed by a four-board member headed by Mr. Udai Pratap Singh, Mr. Gopal Singh, Ms. Madhuri Singh and Dr. Sukanti Kumar Das is a qualified MBBS, DGO, MS as well as specialist of Obs. and Gynae. and having more than four decades of experience in similar line. He looks after the day to day operation of the hospital. Further, the key promoter Mr. Udai Pratap Singh, who have around two decades of experience in the similar industry looks after the day to day operations of the company along with other technical and non-technical professionals. Furthermore, the hospital has 65 doctors out of which 40 in-house doctors and 25 visiting doctors, 174 nursing staff and 284 other supporting staffs.

Healthy operational parameters with strong occupancy rate, steady average length of stay (ALOS) and moderate average revenue per occupied bed (ARPOB): The overall occupancy rate of AHL has been moderated to 70% in FY20 from 58% in FY19 and 50% in FY18 due to better service which has resulting in increase in patient and VHL reported a moderate average revenue per occupied bed though it has moderate to Rs.60,000 in FY20 (from Rs.46,000 in FY19 and Rs.50,000 in FY18) as health care treatment is not much expensive among others. The average length of stay per patient remained stable during FY18-FY20.

Healthy profitability margins and comfortable overall solvency position: The profit margins remained healthy marked by operating margin of 15.19% (FY19:16.06%) and PAT margin of 6.40% (FY19:5.65%) in FY20. The operating margin has deteriorated on account of increase in the cost of operation. However, the PAT margin has improved mainly due to low capital charges during FY20.

The capital structure of the company remained comfortable with debt-equity ratio and overall gearing ratio at 0.21x and 0.40x respectively, as on March 31, 2020 as compared to 0.28x and 0.55x respectively, as on March 31, 2019. The capital structure has improved mainly due to scheduled repayment of term loan as well as accumulation of surplus into reserve and lower utilisation of bank limits. Further, the debt coverage indicators also remained strong marked by interest coverage ratio of 12.44x and total debt to GCA of 1.01x in FY20 as against interest coverage of 8.48x and total debt to GCA of 1.54x in FY19. The interest coverage ratio has improved on account of higher increase in PBILDT level along with low interest expenses. Further, the total debt to GCA has also improved on account of decrease in debt level as well as increase in cash accruals of the company during FY20.

Liquidity: Stretched - Stretched liquidity marked by modest cushion in accruals vis-à-vis repayment obligations low current ratio and low cash balance. The company has reported a cash accrual of Rs.4.45 crore till 10MFY21 vis a vis repayment obligation of Rs.4.23 crore in FY21. The unencumbered cash and cash equivalent stood low at Rs.0.02 crore as on March 31, 2020. The current ratio stood low at 0.85x as on March 31, 2020. Moreover, Its bank limits are utilized to the extent of 26% during last 11 months ended on February 28, 2021. The company has availed any moratorium that could be availed as per RBI regulatory packages. Moreover, the company has availed moratorium over interest on cash credit from March 2020 to August 2020 from its lender. Further, it has availed COVID relief loan of Rs.1.37 crore from its lender under the RBI regulatory packages

Analytical Approach: Standalone

Applicable Criteria:

Criteria on assigning 'outlook' and 'credit watch'

Rating Methodology for Hospital Industry

Financial ratios – Non-Financial Sector

Liquidity Analysis of Non-financial sector entities

CARE's Policy on Default Recognition

About the Company

Asarfi Hospital Limited (AHL) was incorporated on October 04, 2005 as a Private Limited Company. Moreover, the constitution of the company was changed to a public limited company in the year 2012. AHL is a 120 beds premium private general medical facility; renders health care services offering advanced medical care and emergency services. The Hospital has a full-fledged High Dependency Unit, Emergency Department, Outpatient consultation, CCU, ICU, NICU, SICU, Endoscopy, Neurosurgery and Cardiac unit equipped with modern equipment. Currently the hospital has 65 doctors out of which 40 in-house doctors and 25 visiting doctors, 174 nursing staff and 284 other supporting staffs.

The company has planned to come with comprehensive cancer hospital with the facility of 100 beds, which have Radiation Oncology, Medical Oncology and Surgical Oncology departments for treatment of Cancer and the requisite high-end diagnostics and radiotherapy facilities to complete care to the patient under one roof. The total project cost is estimated to be Rs.73.14 crore, which will be funded through term loan of Rs.45.00 crore and balance Rs.28.14 crore through promoter's contribution and internal accruals. Moreover, the company has already spent Rs.4.73 crore on the aforesaid expansion till February 28, 2021, funded by promoters' contribution and the project is estimated to be completed by March, 2023. Moreover, the financial closure for the debt portion of the expansion project is yet to be tied up.

Brief Financials (Rs. crore)	31-03-2019	31.03-2020	10MFY21
	A	A	Provisional
Total operating income	31.51	43.06	39.84
PBILDT	5.06	6.54	4.99
PAT	1.78	2.76	-
Overall gearing (times)	0.55	0.40	-
Interest coverage (times)	8.48	12.44	9.24

A: Audited;

Status of non-cooperation with previous CRA: Non-cooperation with Brickwork Ratings vide its press release dated August 04, 2020 due to non-submission of information by the company

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	Proposed	25.00	CARE BB; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	25.00	CARE BB; Stable	-	-	-	-

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

Annexure 4: Complexity level of various instruments rated for this Company:

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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