

Sree Gokulam Medical College and Research Foundation

June 22, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings ¹	Rating Action
Long Term Bank Facilities	42.75	CARE BB; Stable (Double B; Outlook: Stable)	Assigned
Short Term Bank Facilities	5.00	CARE A4 (A Four)	Assigned
Total Bank Facilities	47.75 (Rs. Forty-Seven Crore and Seventy-Five Lakhs Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Sree Gokulam Medical College and Research Foundation (SGMC) are constrained by the weak capital structure, geographically concentrated revenue, reliance on scarcely available qualified medical professionals, and regulatory risks associated with healthcare sector.

The ratings however derive strength from long track record of operations with consistent growth in income, healthy enrollment levels in the educational institutions and diversified revenue stream.

Rating Sensitivities

Positive Factors

- Ability of Trust to scale up its income to above Rs.200 crore and improve occupancy levels of hospital to more than 80% on consistent basis
- Ability to improve its capital structure with overall gearing ratio of less than 2x.

Negative Factors

- Reduction in enrolment levels to below 60% in the medical college.
- Any adverse regulatory actions
- Any significant delay in admissions in educational institutions and delay in collection of fee receipts from students due to covid pandemic resulting in cash flow mismatch.
- Any large debt-funded capital expenditure leading to further deterioration in the capital structure

Detailed description of the key rating drivers

Key Rating Weaknesses

Weak Capital Structure: The capital structure stood weak with an overall gearing of 3.47x as on March 31, 2021 (Prov) (PY: 28.40x). SGMC had paid prior period income taxes amounting to Rs.54.58 crores resulting in net loss during FY20 which led to the lowering of networth base to Rs. 4.55 crore as on March 31, 2020 from Rs.32.71 crore as on March 21, 2019. SGMC had availed unsecured loans from Sri Gokulam Chits Private Limited, a group entity for its capex requirements.

Reliance on scarcely available qualified medical professionals: The healthcare industry is highly dependent on the scarcely available, qualified medical professionals. The hospital run by the trust had faced relatively higher attrition rate of 12%-20% over the past two years. Given the increasing competition and the scarcity of medical specialists, the ability of the hospital to retain the current pool of doctors would be a key differentiator

Geographic concentration of revenue: Notwithstanding the long track record of over 15 years, SGMC operates only one hospital located in Trivandrum and a Medical College and Nursing Colleges. Being a single location player limits its reach to this geographical region. SGMC also faces competition from existing players in the region providing tertiary care services, regional private hospitals giving primary care and secondary care services and large number of private clinics.

Regulatory risk associated with Healthcare and Education Sector: Higher education sector is one of the highly regulated sectors with both state and central government regulating the industry directly and/or indirectly through various bodies including UGC (University Grants Commission), Medical Council of India (MCI) etc. The scope of government regulations is wide, starting from establishment of course/institute, seat sharing, fee fixation and periodical review of the standards followed by the institute. These factors have a significant impact on the revenues and profitability of the institutions. SGMC also faces regulatory risk associated with the regulations governing the healthcare sector such as the revision in minimum wages for clinical and non-clinical staff during 2018 which would have an impact on the profit margins of the trust.

¹ Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Key Rating Strengths

Long standing operational track record with consistent growth in income: SGMC is one of the largest hospitals in southern region of Kerala catering to patients in Trivandrum and surrounding districts. The hospital commenced operations in 2004 with 300 beds and gradually grown over the years and is currently an 820-bed multi-specialty hospital, offering super specialty services. Trust also runs a medical college for more than a decade.

The Trust has recorded consistent growth in income backed by addition of beds in hospital and incremental fee collected from educational institutions. The operating income of SGMC increased from Rs. 115 crores in FY17 to Rs. 161 crores in FY21 (Prov) at the CAGR of 8.75%. The Occupancy rate of the hospital stood in the range of 70%-75% over the past 3 years ending FY21

Diversified revenue stream and healthy enrolment levels in educational institutions: Apart from hospital, SGMC runs a medical college, paramedical college and nursing college. Revenue from educational institutions contributed to 50%-60% of total revenue for SGMC over the past three years and hospital contributes the rest. The Enrolment level stood healthy at 100% for medical college which constituted more than 95% of the revenue from education services.

Liquidity: stretched- Liquidity is stretched marked by tightly matched accruals against repayment obligations of around Rs.18 crore in FY22 and with instances of cash losses in the past. The Trust had a free cash balance and deposit of Rs. 7.45 crore (PY: 17.25 crore) as on March 31, 2020. The payment from patients is made on an immediate basis, while the insurance companies and corporates pay within 30-45 days. The hospital also enjoys a credit period of around 35-45 days from its suppliers. SGMC had been sanctioned working capital limits of Rs.5 crore which remains unutilised.

Industry outlook and impact of Covid 19:

The Indian education sector was estimated at ~USD 101 billion, growing 10% y-o-y. The New educational policy 2020 aims at increasing the Gross Enrolment Ratio in higher education from 26.3% (2018) to 50% by 2035. As a preventive measure to curb the further spread of the COVID-19 pandemic, schools universities, training centres and other educational institutions were closed across India since mid-March 2020. The long-term outlook for the sector is favourable on expectation of increasing population, increase in per capita income, rising enrolment ratios, variety of courses being offered, growth in vocational courses, government support in terms of Fee Reimbursement Scheme, flexibility in curriculum, innovation fund for secondary education, etc.

The healthcare industry being considered the most essential service continued even during the lockdown period where many other services were shut. The industry is estimated to return to normal levels in the near term backed by expected improvement in occupancy rates, footfalls and ongoing vaccination program. Also, increase in momentum of non-Covid treatments and elective surgeries will support the industry growth in FY22.

Analytical approach: Standalone

Applicable Criteria:

Rating Methodology- Hospital Industry

Rating Methodology – Education Sector

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings

CARE's Policy on Default Recognition

Financial Ratios- Non-Financial Sector

Liquidity Analysis of Non-Financial Sector Entities

Criteria for Short term Instruments

About the Trust

Sree Gokulam Medical College and Research Foundation (SGMC) runs under a Trivandrum based public charitable trust, established in the year 2003 by Shri A M Gopalan. The Trust runs an 820-bedded, multi-specialty hospital, medical college and nursing college. The income from hospital contributes to 44% (PY: 47%) of total income in FY21 (Provisional) while the rest is contributed by fee receipts from Educational Institutions.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	144.00	161.99
SBID	31.60	40.30
Net Surplus	18.35	-28.17
Overall gearing (times)	2.98	28.40
Interest coverage (times)	14.84	12.71

A: Audited;

Status of non-cooperation with previous CRA:

Not Applicable

Any other information:

Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants on instruments rated: NA

Complexity level of various instruments rated for the trust: Please refer Annexure-3

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	-	-	December 2025	42.75	CARE BB; Stable
Fund-based - ST-Bank Overdraft	-	-	-	5.00	CARE A4

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	42.75	CARE BB; Stable	-	-	-	-
2.	Fund-based - ST-Bank Overdraft	ST	5.00	CARE A4	-	-	-	-

Annexure-3: Complexity level of various instruments rated for the trust

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