

Aarvy Healthcare Private Limited

November 23, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	75.00 (Enhanced from 50.00)	CARE B+; Stable (Single B Plus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	75.00 (₹ Seventy-Five Crore Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating assigned to the bank facilities of Aarvy Healthcare Private Limited (AHPL) remain constrained by small and nascent stage of operations, low profitability margins and weak financial risk profile. Further, the company is also constrained by risks in the healthcare industry associated with the availability and attrition of medical professionals as well-as the treatments done, regulatory risk, project execution and stabilization risk regarding operations and highly competitive nature of the industry. The rating, however, derives strength from experienced promoter, location advantage and positive outlook of Indian healthcare industry.

Rating sensitivities

Positive Factors- Factors that could lead to positive rating action/upgrade

- Improvement in scale of operations to around Rs. 81.00 crore and above over the medium term on sustained basis.
- Timely and successful execution of the project within envisaged cost.
- Improvement in profitability margins as marked by PBILDT margin above 10% on a sustained basis.

Negative Factors- Factors that could lead to negative rating action/downgrade

- Continued losses incurred by the company putting further stress on the liquidity position of the company.

Detailed description of the key rating drivers

Key Rating Weakness

Small and Nascent Stage of operations

AHPL started its partial commercial operations during April 2021 and has a relatively short track record of operations as compared with other established players in the industry. The company's scale of operations has remained small marked by total operating income (TOI) of Rs. 32.51 crore during FY22. Furthermore, post project implementation risk in the form of stabilization of the facilities to achieve the envisaged scale of business and reputation risk associated with the services offered in the light of competitive nature of industry remains crucial for AHPL. Furthermore, the company has achieved total operating income Rs. 23.67 crore during 7MFY23 (refer to the period from April 01, 2022, to October 31, 2022) and expecting to achieve total operating income of around Rs. 80.61 crore during FY23.

Low profitability margins

The profitability margins of the company as marked by PBILDT and PAT margin stood weak on account of loss incurred during the last two financial years (FY21-FY22). Further, PBILDT and PAT margin of the company improve though stood low at 5.45% and (38.31%) in FY22. The same is on account high professional charges, depreciation, and interest expenses. The profitability margins are expected to improve further over the medium term as envisaged backed by full-fledged operations of the hospital with all the integrated facilities.

Weak financial risk profile

As on March 31, 2022, the capital structure of the company stood leveraged on account of high debt levels against the negative net base due to continuous loss leading to erosion of net worth. Overall gearing (Including Acceptances / Creditors on LC) ratio stood at (11.26) x as on March 31, 2022, as against (13.08) x as on March 31, 2021.

Further, on account of high debt levels and low earnings, the debt coverage indicators of the company stood weak as marked by interest coverage and total debt to GCA as 0.91x and (217.45x) respectively for FY22.

Risks in the healthcare industry associated with the availability and attrition of medical professionals as well-as the treatments done

Presence of qualified medical professionals such as doctors, paramedical staff and support staff is one of the important requisites of any hospital to be successful and to get continued patronage from the local population. There is an increasing level

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

of competition and the scarcity of medical specialists in the domestic healthcare industry. Furthermore, healthcare is a highly sensitive sector where any mishandling of a case or negligence on the part of any doctor and/or staff of the unit can damage the reputation of the hospital to a large extent. Thus, differentiating factors like range of services offered, quality of service, distinction of doctors, success rate in treatment of complex cases, etc. will be crucial to attract patients and increase occupancy.

Regulatory risk

The industry is exposed to regulatory challenges by the government. The stance of the government to bring down prices of healthcare procedures has prompted healthcare players to focus on bringing down the cost of procedures. The government flagship programme known as Ayushman Bharat has been envisioned as the foundation of India's health system under the National Health Policy, 2017. Empanelment in the government's healthcare mission compels private players to cut costs per operating bed since the revenue from the operating bed under the scheme is limited. It has also set new pricing standards for medical procedures in the country. The health ministry has prepared a rate list of 1354 packages, which will be covered under the National Health Protection Scheme.

Project execution and stabilization risk regarding operations

AHPL is setting up 200 bed hospital situated at Sec-90, Gurugram (Haryana) with total project cost of Rs.113.48 crore. The project is proposed to be funded through term loan of Rs.75.00 crore and balance through promoter's contribution (share capital of Rs.5.00 crore and unsecured loans of Rs.33.48 crore) of Rs.38.48 crore. The hospital had commenced its commercial operations from April, 2021 and it will be fully operational from March, 2023. As on November 15, 2021, the company has incurred Rs.111.48 crore which is ~98.23% of the total project cost. The same have been funded through promoter's contribution of Rs.39.46 crore (i.e. share capital (Rs.5.00 crore) and unsecured loans (Rs.34.46 crore) and bank debt of Rs.72.02 crore. Any cost overrun due to delay in project implementation shall be met out of promoters' contribution. Further, post project implementation risk in the form of stabilization and streamlining of operations to achieve the envisaged scale of business and risk associated with the services in the light of competitive nature of industry is yet to be seen. During the initial phases of operations, the capital structure of the company is expected to remain leveraged due to debt funded CAPEX undertaken.

Highly competitive nature of the industry

The company operates in a highly competitive industry. There are various organized and unorganized players in the market. It faces stiff competition from other hospitals and private clinics in the area. Thus, differentiating factors like range of services offered, quality of service, pedigree of doctors, success rate in the treatment of complex cases, word of mouth etc. are crucial in order to attract patients and increase occupancy levels. The hospital will have to be very careful with its operations and has to follow various regulations imposed by the government. Further, with the increasing competition due to mushrooming of private clinics / small hospital in the region, the retention of the trained medical staff seems to be an area of concern for the company. Going forward retention of trained medical staff would be critical for AHPL to profitably scale up its operations.

Key Rating Strengths

Experienced promoters

Dr. Vikram Singh and Dr. Renu Yadav are the directors of the company, and they collectively look after the overall operations of the company. Dr. Vikram Singh is M.S. by qualification having expertise in laparoscopic and cancer surgeries for more than two decades. He has been associated with the top hospitals in the country including PGI (Rohtak), Paras Hospitals (Gurugram), Max Hospital (Gurugram). Dr. Renu Yadav is M.D. (Obstetrician & Gynaecologist) by qualification and has started her career as a Medical Officer in Haryana Civil Medical Services (HCMS), Haryana for the tenure 1997 to 2004. Since 2004, she is working as Obstetrician & Gynaecologist specialist with Aarvy Hospital, Gurgaon and holds experience of more than two decades. The promoters have adequate acumen about various aspects of business which is likely to benefit the company in the long run. The promoters are supported by team of professionals having relevant experience in their respective fields.

Location advantage

Aarvy Healthcare Private Limited (AHPL) is located at Sector-90, Gurugram and is located centrally to the populous tehsils of Gurugram district. The location itself does not have any major hospitals. It is an upcoming township of Gurugram lies on NH 8 and is also connected with Delhi through Dwarka express way. Besides there are no hospitals between Alwar to Gurugram, Jhajjar to Gurugram which offers Radiotherapy facility. The site is also located near to other cities such as Dharuhera, Rewari and Jhajjar.

Positive outlook of Indian healthcare industry

Indian healthcare industry has been growing at a CAGR of about 14% to 15% since 2016 and is estimated to reach about USD 110 billion in FY22. Hospitals, forming 60% to 70% of the healthcare sector, are expected to report about 15% of revenue growth and expansion of operating margins by 300 to 400 basis points during FY22. Sharp recovery in topline is driven by higher occupancy, release of deferred non-Covid surgeries, higher ARPOB and increased bed capacity of hospital chains. The revenue growth of hospitals is expected to revert to pre-Covid levels of 10% to 12% for FY23 and FY24, respectively. Prudent expansion plans of the hospitals, better health insurance penetration, increasing investments in the healthcare industry and increasing public and private health spend are expected to aid the healthcare industry to surpass USD 130 billion by FY24.

Liquidity: Stretched

The liquidity position of the company remained stretched characterized by tightly matched accruals vis-à-vis repayment obligations. The company has generated low gross cash accrual of Rs. 0.39 crore and is expected to envisage GCA of Rs. 3.91 crore as on March 31, 2023, against repayment obligation of Rs. 1.50 crore in the same year. Further, the company has low cash & bank balances which stood at Rs. 1.22 crore as on March 31, 2022.

Analytical approach: Standalone

Applicable criteria:

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Hospital](#)

[Project stage companies](#)

About the company

Gurugram based Aarvy Healthcare Private Limited (AHPL) was incorporated as a private limited company in July, 2016 and it has started its operations on 103 beds (as on date) from January, 2022. It is 200 bedded super specialty hospital promoted and led by renowned Laparoscopic and Cancer Surgeon, Dr. Vikram Singh who has accomplished the most complex and challenging surgeries in the last 23 years. The hospital has an advanced Mother & Child Centre headed by well-known Obstetrician & Gynaecologist, Dr. Renu Yadav. The Hospital is equipped to handle all kinds of laparoscopic, minimally invasive, gynaecological & cancer surgeries. The hospital is well equipped with 7 intensive care units (ICU's/CCU) for post-operative care and critical cases, 35 private wards, a well-equipped Physiotherapy Room, Operation Theater which is duly supported by 24 hrs Emergency, Ambulance, Pharmacy, Cardiology OPD & diagnostic services (X-Ray, Ultrasound, Image Intensifier, CT Scan and MRI). The hospital has 44 full-time in-house doctors, 15 consultants' doctors, 13 Junior medical doctors, 92 nurses, 45 paramedical staff and 137 support medical staff.

The company has an associate concern namely; "Aarvy Hospital" (established in 2007) engaged in providing healthcare services.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	7MFY23 (Prov.)
Total operating income	0.22	32.51	23.67
PBILDT	-0.12	1.77	NA
PAT	-0.02	-12.46	NA
Overall gearing (times)	13.08	-11.26	NA
Interest coverage (times)	-441.72	0.91	NA

A: Audited; Prov.: Provisional, NA: Not Available

*refer to the period from April 01, 2022 to October 31, 2022.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Available

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

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 along with Rating Outlook
Fund-based - LT-Term Loan		-	-	Jun, 2036	75.00	CARE B+; Stable

Annexure-2: Rating history for the 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	75.00	CARE B+; Stable	-	1)CARE B+; Stable (14-Oct-21)	1)CARE B+; Stable; ISSUER NOT COOPERATING* (22-Mar-21)	1)CARE B+; Stable (11-Feb-20)

*Long term/Short term.

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

Annexure-4: Complexity level of various instruments rated for this company

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

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

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

Contact us

Media contact

Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact

Name: Shivam Tandon
Phone: 9711511123
E-mail: shivam.tandon@careedge.in

Relationship contact

Name: Swati Agrawal
Phone: +91-11-4533 3200
E-mail: swati.agrawal@careedge.in

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.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

**For the detailed Rationale Report and subscription information,
please visit www.careedge.in**