Durgapur Medical Centre Private Limited (Revised)

April 3, 2020

Ratings

Facilities	Amount (Rs. Crore)	Rating[1]	Rating Action
Long-term Bank Facilities	13.01 (reduced from 14.82)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	Reaffirmed
Short-term Bank Facilities	4.00	**CARE A2 (A Two)**	Reaffirmed
Total	**17.01 (Rupees Seventeen Crore and One Lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

The ratings for the bank facilities of Durgapur Medical Centre Private Limited (DMCPL) continues to derives strength from professional and qualified promoters, one of the major multi-specialty hospital in Durgapur, tie up arrangement with various corporate and government entities, satisfactory occupancy rate albeit moderation in FY19, stable financial performance in FY19 (refers to the period from April 01 to March 31) & 9MFY20 coupled with comfortable capital structure. However, the ratings are constrained by risk associated with on-going project, high vulnerability to treatment related risk and fragmented nature of the industry.

Rating Sensitivity

Positive Rating Sensitivity

- *Ability to increase the scale of operation and operating margin (PBILDT) beyond 18% on sustained basis*

Negative Rating Sensitivity

- *Any un-envisaged incremental debt funded capital expenditure deteriorating its capital structure and debt coverage indicators from current levels.*
- *Deterioration in overall occupancy levels below 65% on sustained basis*
- *Significant deviation from the envisaged cash flow and profitability from the recently established hospital at Ranchi*

Detailed description of the key rating drivers

Key Rating Strengths

Professional and qualified promoters

Dr. Satyajit Bose, Chairman and one of the co-promoter of DMCPL, is a highly qualified [MBBS, MS (Surgery), M.Ch. (cardio thoracic surgery)] and renowned cardiothoracic surgeon of Kolkata having experience of around two decades. He has successfully performed numerous surgeries and offered professional consultancy across reputed hospitals in Kolkata. The other promoter, Mr. Tarun Bhattacharya is the managing director of DMCPL. He is also the founder member of various engineering colleges in West Bengal. The day-to-day affairs of the hospital are being looked after by Mr. Pradipta Kumar Swain (CFO) along with the support from a team of experienced doctors and professionals.

One of the major multi-specialty hospitals in Durgapur

The Mission Hospital (TMH) under DMCPL started its operation way bank in April 2008 and is the first multi-specialty hospital in Eastern India outside Kolkata. DMCPL provides secondary and tertiary healthcare services in various fields (Orthopedics, Cardiology, Cardiac Surgery ,Nephrology, Pulmonology, Gastroenterology, Neurology, Laparoscopic Surgery etc.) with specialists available round the clock exclusively for the hospital.

Tie-up arrangement for referring patient to TMH

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

It has tie-ups with various corporates to provide medical services, including annual check-up to the employees. Apart from corporates, DMCPL also has tie-ups with State Governments under their health schemes which ensure steady referrals of patients to TMH, thereby providing revenue stability.

Satisfactory occupancy rate albeit moderation in FY19 and improvement in ARPOB
Occupancy rate of the hospital has been satisfactory over the past few years (78% in FY17 and 81% in FY18). However, the hospital witnessed moderation in occupancy rate in FY19, stood at ~70%, mainly on account of lower turn-out of patients under some of the popular government schemes. Meanwhile, Average Revenue Per Occupied Bed (ARPOB) of the company increased in FY19 to Rs.17, 962 vis-à-vis Rs.14, 397 in FY18 and Rs.15, 147 in FY17 attributable to overall increase in the revenue with change in the revenue mix to costly treatments/ surgeries/ consultancy.

Stable financial performance in FY19 and 9MFY20
The total operating income of DMCPL increased by ~6% y-o-y to Rs.180.09 crore in FY19 from Rs.169.58 crore in FY18 mainly due to increase in average revenue per in-house patient. However, PBILDT margin declined from 13.28% in FY18 to 12.33% in FY19 mainly on account of high employee cost and professional fees to consultants coupled with change in the use of medicine from generic type to research medicine for ICU/CCU patients. Nevertheless, PAT margins improved to 6.40% (Rs.11.52 crore) in FY19 from 5.39% (i.e. Rs.9.15 crore) in FY18 mainly on account of increase in non-operating income coupled with decline in capital charges viz. finance cost and depreciation. Interest coverage ratio improved to 20.82x in FY19 vis-à-vis 15.18x in FY18.
In 9MFY20, the company earned PBILDT of Rs.19.13 crore (P. Y.: Rs.19.28 crore) on total operating income of Rs.152.90 crore (P.Y.: Rs.135.35 crore).

Comfortable capital structure
The capital structure of DMCPL continued to remain comfortable marked by improvement in the overall gearing ratio to 0.11x as on March 31, 2019 from 0.24x as on March 31, 2018 mainly on account of overall decrease in total debt (*attributable to decrease in working capital borrowings coupled with term debt repayment*) and accretion of profit to reserve. Accordingly, Total debt/ GCA also improved to 0.60x as on March 31, 2019 from 1.30x as on March 31, 2018.

Key Rating Weakness

Project Risk
DMCPL is contemplating to set up an oncology (cancer) department at a total project cost of Rs.25 crore (approx.). The company has obtained majority of the approvals for the said cancer unit. The entire project is expected to be funded out of internal accruals. Currently, the company is going slowly on the cancer project with prime focus on studying the local market and evaluating the occupancy levels on sustained basis. Timely completion of the same within the envisaged cost is the key rating sensitivity.
Further, during the current financial year, the company has taken a hospital, having 125 beds, on lease for 30 years in Ranchi and the company has availed term loan of Rs.6.21 crore to finance the medical equipment for the new hospital at Ranchi. Any significant deviation from the envisaged cash flow and profitability from the Ranchi unit will remain a key rating sensitivity.

Fragmented industry
The hospitality sector is highly fragmented with few large players in the organised sector and numerous small players in the unorganised sector leading to high level of competition in the business. Thus, differentiating factors like range of services offered, quality of service, pedigree of doctors, success rate in treatment of complex cases, etc. will be crucial in order to attract patients and increase occupancy.

High vulnerability to treatment-related and operating risks
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 high operating standard to avoid the occurrence of any unforeseen

incident which can damage the reputation of the hospital to a large extent. Therefore, the industry also needs to maintain high vigilance so as to avoid any kind of malpractice in the system.

Liquidity position: Adequate

Adequate liquidity is characterized by sufficient cushion in accruals (GCA of Rs.18.14 crore) against repayment obligations of Rs.4.62 crore couple with healthy cash and cash equivalents of Rs.31.44 crore (including liquid investments to the tune of Rs.22.30 Crore) as on March 31, 2019. With a gearing of 0.11 times as of March 31, 2019, the issuer has sufficient gearing headroom, to raise additional debt for funding its capex plan, if required. Its unutilized bank limits (utilized to the extent of 7% only in the last twelve months ending Dec-19) are more than adequate to meet its incremental working capital needs over the next one year. Going forward, Gross Cash Accruals of the company is expected to remain comfortable vis-à-vis its scheduled debt repayments obligations.

Industry Outlook: Stable

Indian healthcare Sector, one of the fastest growing industries supported by strong demand, quality and affordable services, policy support like FDI policy, tax incentives, schemes and programmes like Ayushman Bharat Scheme coupled with rise in incomes, easier access to high quality healthcare services and greater awareness among population, improving penetration of health services, and rise in government expenditure on Health services. Further, on the back of easier norms for medical visa approvals, cost effective high quality surgery and comparatively under developed Healthcare services in neighbouring countries like Bangladesh, Nepal, Bhutan, Pakistan and Afghanistan the medical tourism market is expected to increase.

Analytical Approach: Standalone

Applicable criteria:

CARE's Policy on Default Recognition
Criteria on assigning Outlook to Credit Ratings
Financial ratios – Non-Financial Sector
Criteria for Short Term Instruments
Rating Methodology-Hospital Industry

About the Company

Durgapur Medical Centre Pvt. Ltd. (DMC), incorporated in 1987, is currently operating a 363 beds multi-specialty hospital at Durgapur, named 'The Mission Hospital' (TMH). TMH became operational in April 2008. Initially, the company remained dormant for 17 years and was subsequently taken over by the present management led by Dr. Satyajit Bose in 2004. DMCPL is a professionally-managed closely held company with its board consisting of four promoter directors. Further, during the current financial year (FY20), the company has taken a hospital, having 125 beds, on lease for 30 years in Ranchi.
The day-to-day operation of the hospital is being looked after by Mr. Pradipta Kumar Swain (CFO) along with the support from a team of experienced doctors and professionals.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	169.58	180.09
PBILDT	22.52	22.21
PAT	9.15	11.52
Overall gearing (times)	0.24	0.11
Interest coverage (times)	15.18	20.82

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: Not Applicable

Rating History for 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-Cash Credit	-	-	-	11.00	CARE BBB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	4.00	CARE A2
Term Loan-Long Term	-	-	May-21	2.01	CARE BBB+; 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	11.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (07-Mar-19)	1)CARE BBB+; Stable (28-Mar-18)	1)CARE BBB+; Stable (19-Jan-17)
2.	Term Loan-Long Term	LT	-	-	-	-	1)Withdrawn (28-Mar-18)	1)CARE BBB+; Stable (19-Jan-17)
3.	Non-fund-based - ST-BG/LC	ST	4.00	CARE A2	-	1)CARE A2 (07-Mar-19)	1)CARE A3+ (28-Mar-18)	1)CARE A3+ (19-Jan-17)
4.	Term Loan-Long Term	LT	2.01	CARE BBB+; Stable	-	1)CARE BBB+; Stable (07-Mar-19)	1)CARE BBB+; Stable (28-Mar-18)	1)CARE BBB+; Stable (19-Jan-17)

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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