

M.M. Patel Public Charitable Trust

June 16, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities	74.92	CARE BB; Stable (Double B; Outlook: Stable)	Revised from CARE B; Stable (Single B; Outlook: Stable)
Short term Bank Facilities	9.35	CARE A4 (A Four)	Reaffirmed
Total Facilities	84.27 (Rupees Eighty four crore and twenty six lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings to the bank facilities of M.M. Patel Public Charitable Trust (MMPT) takes into account the improvement in the financial performance during FY20 (Unaudited; refers to the period April 01 to March 31) as against FY19 marked by improved profitability margins and improvement in capital structure along with the debt servicing capabilities of the trust.

The ratings continue to remain constrained due to modest scale of operations, moderate capital structure and low debt servicing parameter, high collection period, limited track record of the medical college and regulatory risk associated with the regulations governing the education and healthcare sector.

The ratings of MMPT however, derive comfort from resourceful trustees with experience from diverse fields, healthy occupancy ratio for the hospital and healthy enrollment ratio for the college.

Rating Sensitivities

Positive factors

- Substantial improvement in the trust operational profile leading to sustained increase in TOI further by 30% and improvement in liquidity buffer.
- Improvement in capital structure and debt coverage metrics with TDGCA reducing below 3.0x and SBILDT interest coverage improving over and above 3.5x.

Negative factors

- Unanticipated delay in receipts leading to cash flow mismatches, or lowers occupancy in hospital below 70% and enrolment ratios in the medical college below 80%, weakening the operating performance and profitability.
- Unanticipated debt-funded capital expenditure weakening the financial risk profile especially liquidity.

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest scale of operations

The scale of operations of the trust though improved continue to remain modest as marked by total operating income of Rs.73.34 cr during FY20 (Prov.) against Rs.63.80 cr in FY19. The modest scale limits, MMPT's financial flexibility in times of stress. The increase in TOI is mainly on account of income from new PG course introduced by the trust and revision in fee of existing courses during FY20. The surplus ratios improved with SBILDT margin and SAT margin at 32.09% and 8.37% in FY20 from 31.41% and 1.86% in FY19. The improvement in profit margins is mainly on account of increase in revenue and lower interest cost due to repayment of term loans. Furthermore, the gross cash accruals also increased to Rs.14.23 crore during FY20 (Prov.) as against Rs.8.92 crore during FY19.

Moderate capital structure

The debt profile of MMPT includes term loans from bank of Rs.69.86 cr, unsecured loans from trustees, related parties and group companies to the tune of Rs.20.71 cr and working capital borrowings of Rs.1.31 cr as on March 31, 2020 (Provisional). The capital structure of the trust improved but remained moderate marked by overall gearing at 1.29x as on March 31, 2020 against 1.95x as on March 31, 2019 led by scheduled repayment of term loans, repayment of unsecured loans and improvement in net-worth to Rs.71.34 cr as on March 31, 2020 against Rs.57.32 cr as on March 31, 2019. The debt protection metrics also improved with Total Debt To Gross Cash Accruals (TDGCA) improving to 6.46x as on March 31, 2020 as against 12.52x as on March 31, 2019 on account of improved GCA and reduced total debt. The SBILDT and SBIT interest coverage

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

also improved to 2.47x and 1.62x during FY20 as against 1.77x and 1.09x during FY19.

Elongated operating cycle

Despite of being in the education sector, the trust continue to have high receivable of Rs.8.89 cr as on March 31, 2020 increased from Rs.7.54 crs as on March 31, 2019. The receivables mainly pertain to due from students towards fee (Rs.7.9 crs as on March 31, 2020). The working capital cycle of the Trust elongated in FY20 with collection period standing at 115 days and inventory period at 4 days. The Trust receives most of the college fee at the time of admission and remaining fee and receivables (scholarships fee) from government are received in a time of around three to four months and hospital receivables for Government schemes is received in around 30 days to 45 days. Furthermore, the creditors' period decreased to 43 days during FY20 from 88 days leading to increase in operating cycle to 76 days during FY20.

Regulatory risk associated with Healthcare and Education Sector

Since the privatization of education commenced in India, several private colleges and institutes have been established in different parts of country. There is an increasing preference for quality private educational institutions amongst the urban population. However, despite the increasing trend of privatization of education sector in India, regulatory challenges continue to pose a significant threat to the educational institutes. The educational institutes are regulated by respective state governments with respect to the number of management seats, amount of the tuition fees charged for the government quota and management quota. The factors have a significant impact on the revenue and surplus margins of the institutions. Also, the Healthcare sector in India has become one of the largest sectors - both in terms of revenue and employment. There are extensive opportunities for the investments to be made in healthcare infrastructure in both the urban and rural India. However, MMPPCT faces regulatory risk associated with the regulations governing the healthcare sector.

Geographically concentrated revenue

Though MMPT's operating income was at Rs.73.34 crore in FY20 (Prov.) and is estimated at around Rs.81.47 crs in fiscal year 21 with occupancy rates of around 100%, the hospital and the institution operating under the society are located in Solapur (Maharashtra) thus exposing it to geographic concentration risk.

Key Rating Strengths

Resourceful trustees

M.M. Patel Public Charitable Trust was established in the year 2008 by Mr. Bipinbhai Patel (Chief trustee) and his family members. The trustees have vast entrepreneurial experience in fields of textiles, dye cream, civil construction, transportation, construction and petrol pumps. The chief trustee is also the active Director & present Chairman of Ashwini Sahakari Rughalaya Ani Sanshodhan Kendra Nyt, Solapur which is a multistate Co-operative Society having 520 bedded Hospital providing multi super specialty, services from 2003.

Healthy occupancy ratio for the hospital

The hospital of the trust i.e. Ashwini Rural Hospital, (520 bedded) is situated at the village Kumbhari which is 10 km away from main Solapur city. Considering limited competition in the Solapur region, the occupancy level remained around ~85% over past 4 years ended FY20.

Healthy enrollment ratios for the college

The college started the admissions during the academic year 2012-13. Though the operations of the Medical College has limited track record, the trust has been able to achieve healthy enrollment ratio for its medical college of ~100% for the past years. Three batches of MBBS students have graduated by academic year 2018-19. Furthermore, the trust introduced a new PG course with intake capacity of 35 students during FY20 where the enrollment ratio for the first batch remained 100%. Any deterioration in student strength/enrolment would also be a key rating sensitivity.

Impact of COVID-19 on financial and operational performance of the Trust

The impact on the operations of the hospital has remained nearly negligible as healthcare being an essential service the hospital remained functional during lockdown. The hospital was declared as COVID-19 dedicated hospital and 100 beds have been solely dedicated for COVID-19 patients which would generate additional revenue for the hospital. Furthermore, since the medical college has MBBS and PG courses, the admissions are not expected to be impacted much for them.

Liquidity-Stretched

Liquidity is stretched marked by tightly matched gross cash accruals of Rs.18.91 cr in FY21 to repayment obligations of Rs.16.60 crore during FY21. The cash and bank balance was seen at Rs.0.73 crore as on March 31, 2020. The utilized bank limits remain moderate to the extent of 21.07% for the past 12 months ended April 2020. The maximum CC utilization

remained at 98.20% in the month of July 2019. Further, the trust has very moderate capex plans projected in short-term which are taken care by the donations received by the trust added directly to its corpus fund.

Industry Outlook

The impact of COVID-19 on the corporate hospital sector is expected to be negative though it may not be prolonged. It would witness a fall in occupancy levels across hospitals due to negligible OPD as well as IPD operations owing to nationwide lockdown. Profitability is also expected to remain under pressure in the sector given more than half of the cost being fixed in nature. However, as medical treatments cannot be deferred for long, occupancy levels will witness a rise once the lockdown is over and the overall reluctance to visit hospitals subsides. It is further believed for the fundamentals of the sector to remain intact and continue to grow backed by an increase in demand for modern healthcare facilities, a rise in awareness about diseases, health consciousness among people, increase in per capita income, changing lifestyle, transition in disease profile etc.

Also, the long term outlook for the education sector remains stable, prolonged lockdown could impact the operations and the cash flows of the education sector entities in the short term as the income may get deferred for the time being. However, entities with liquidity backup and resourceful promoters are not likely to get affected much

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[CARE's Criteria for Short Term Instruments](#)

[Rating Methodology- Education Sector](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

M.M. Patel Public Charitable Trust (MMPT) was established in the year 2008 by Mr Bipinbhai M. Patel and his family. MMPT is a public charitable trust which is currently managing a 520-bedded hospital, namely, 'Ashwini Rural Hospital' at Solapur and also operates a medical college-namely 'Ashwini Rural Medical College' which is the first rural medical college in Solapur district, Maharashtra. The medical college offers MBBS and post graduate courses.

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

Brief Financials (Rs. crore)	FY19 (A)	FY20 (UA)
Total operating income	63.80	73.34
SBILDT	20.04	23.53
Surplus	1.18	6.14
Overall gearing (times)	1.95	1.29
Interest coverage (times)	1.77	2.47

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Not applicable

Any other information: NA

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-Term Loan	-	-	-	58.34	CARE BB; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	2.55	CARE A4
Fund-based - LT-Cash Credit	-	-	-	5.00	CARE BB; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	6.80	CARE A4
Term Loan-Long Term	-	-	-	11.58	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	58.34	CARE BB; Stable	-	1)CARE B; Stable (21-Jan-20) 2)CARE C; Stable (28-May-19)	1)CARE BB; Stable (07-Jan-19)	1)CARE BB-; Stable (08-Jan-18)
2.	Non-fund-based - ST-Bank Guarantees	ST	2.55	CARE A4	-	1)CARE A4 (21-Jan-20) 2)CARE A4 (28-May-19)	1)CARE A4 (07-Jan-19)	1)CARE A4 (08-Jan-18)
3.	Fund-based - LT-Cash Credit	LT	5.00	CARE BB; Stable	-	1)CARE B; Stable (21-Jan-20) 2)CARE C; Stable (28-May-19)	1)CARE BB; Stable (07-Jan-19)	1)CARE BB-; Stable (08-Jan-18)
4.	Non-fund-based - ST-Bank Guarantees	ST	6.80	CARE A4	-	1)CARE A4 (21-Jan-20) 2)CARE A4 (28-May-19)	1)CARE A4 (07-Jan-19)	-
5.	Term Loan-Long Term	LT	11.58	CARE BB; Stable	-	1)CARE B; Stable (21-Jan-20) 2)CARE D (28-May-19)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
a. Rate of Interest	13.50% p.a. for existing loans sanctioned in FY2011 and 3.95% above base rate for new loans by consortium lending sanctioned in FY2014
b. Current Ratio	2.66
c. TOL/TNW	2.92
d. Interest Coverage Ratio (PBDIT/Interest)	2.16
B. Non-financial covenants	
a. Undertaking by trust	The Trust to give an undertaking (backed by resolution of the Trustees) that <ul style="list-style-type: none"> • Unsecured loans infused will not be repaid during the currency of bank loans
b. Submission to banks	The trust should submit the periodical information like financial statements, quarterly operating statements from time to time failing which the bank will charge additional interest not exceeding 2% on the outstanding liability.
c. Insurance of Charged assets	Assets charged to the bank shall be adequately insured for all risks as per norms with UIICO ltd.

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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