

Polakulath Narayanan Renai Medicity

March 30, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Remarks
Long-term Bank Facilities	13.06 (Enhanced from 12.78)	CARE BBB-; Positive (Triple B Minus; Outlook: Positive)	Reaffirmed
Total	13.06 (Rupees Thirteen Crores & Six Lakhs only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Polakulath Narayanan Renai Medicity (Renai) continues to derive strength from the vast industrial experience of the promoters, improved occupancy levels and comfortable capital structure.

The rating, however, continues to be constrained by the short track record of the Hospital with its operations confined to a single geography, dependence on scarcely available qualified medical professionals and exposure to the competition present in the healthcare Industry.

Going forward, ability of the firm to scale up operations of the existing hospital, diversify its revenue profile & maintain a comfortable capital structure will be the key rating sensitivities.

The outlook is 'Positive' as CARE believes that going forward, with increasing patronage, the hospital is expected to scale up operations and maintain its profitability margins. The outlook may be revised to 'Stable' in case the hospital is not able to sustain higher levels of occupancy or profitability.

Detailed description of the key rating drivers

Key Rating Strengths

Vast industrial experience of the promoters

The promoters have vast experience of over three decades in managing the operations of various businesses like hospitality, healthcare, hotels etc. Mr Polakulath Narayanan established the group in 1970 and his son Mr P N Krishnadas currently manages Renai Medicity and various other companies of the group.

Increasing scale of operations

The hospital started its full year of operations in FY14 and it had an occupancy ratio of 30% during the first year which has over the years increased considerably to 87% in FY17 leading to continuous growth in the operating income. The hospital has added 41 additional beds in FY17 and the number of beds now stands at 335 as compared to 294 in FY16. The increase in no of beds and occupancy has led to the increase in the total revenue by 30% from Rs. 70 crore in FY16 to Rs. 93 crore in FY17.

Financial profile marked by healthy profitability and comfortable overall gearing levels

Renai had a relatively healthy PBILDT margin of 20.40% in FY17 improved from 17.22% in FY16 on the back of lower operating costs which were higher during its initial years of operations. The overall gearing of Renai had improved to 0.25x on March 31, 2017 from 0.40x on March 31, 2016 on the back of reduced term loan borrowings and the healthy net worth of the firm. The coverage ratios also remained comfortable with Interest coverage ratio at 11.70x in FY17 (5.80x in FY16) and total debt to GCA at 0.69 years as on March 31, 2017 (1.41 years as on March 31, 2016).

Key Rating Weaknesses

Moderate scale and geographically concentrated operations

Renai has been operating with 335 beds as of September 30, 2017. The hospital thus has a limited scale of operations owing to its size & capacity and is totally dependent on the catchment area of Kochi for patients. The hospital has taken steps to get additional patients through medical tourism particularly from Middle-east. The firm is also planning to set up an exclusive infertility and dental clinic near the existing building on a small scale and is also making new additions in terms of new OTs, as well as this year it has added new MRI machine.

Dependence on scarcely available qualified medical professionals

Presence of qualified medical professionals such as doctors, paramedical staff and support staff is one of the important prerequisites of a hospital to be successful and to get continued patronage from the local population. Renai is highly dependent on these scarcely available qualified medical professionals. Most Doctors in Renai though only consultants work full time for the hospital.

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

Exposure to the competition present in the healthcare industry

Renai faces intense competition from other hospitals in the Kochi region. Renai tries to manage the competition by leveraging on its affordable cost of treatment & experienced doctors and special emphasis on delivering quality healthcare to all sections of the society. Additional specialists recruited by Renai have also helped the hospital to get additional patronage. The Hospitals affordable cost has helped it to get better patronage within a short time frame and has ensured a regular stream of patients.

Applicable Criteria

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

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

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

[Rating Methodology - Service Sector Companies](#)

About the Company

Renai Medicity is a partnership firm operating a 335 bed multi-specialty hospital situated in Kochi. The hospital started its operations in July 2012 with various specialty departments such as Gynaecology, Nephrology, ENT, Orthopaedics, Cardiology, Neurology, Pulmonology etc. The Hospital, as on February 28, 2018, has 335 beds and is managed by about 108 doctors and 886 nursing & support staff. The entire operations of the group including the Renai Medicity hospital is taken care of by his son P N Krishnadas along with his brothers Mr P N Krishnalal, Mr P N Krishnanunni & two sisters Mrs P N Krishnalaji & Mrs P N Krishnaleela.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	70.01	92.89
PBILDT	12.06	18.95
PAT	2.08	9.97
Overall gearing (times)	0.40	0.25
Interest coverage (times)	5.80	11.70

Status of non-cooperation with previous CRA:

Not Applicable

Any other information:

Not Applicable

Rating History for last three years:

Please refer Annexure-2

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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About CARE Ratings:

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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	-	-	Apr 2022	12.56	CARE BBB-; Positive
Fund-based - LT-Working Capital Limits	-	-	-	0.50	CARE BBB-; Positive

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	12.56	CARE BBB-; Positive	-	1)CARE BBB-; Stable (20-Dec-16)	1)CARE BB (03-Feb-16) 2)CARE BB (14-Jan-16)	-
2.	Fund-based - LT-Working Capital Limits	LT	0.50	CARE BBB-; Positive	-	1)CARE BBB-; Stable (20-Dec-16)	1)CARE BB (03-Feb-16)	-

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