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The Passion Hospital: Credit Analysis for Working Capital Finance

It was 5.30 pm of February 7, 2022 when Mr. Bhiman the head of Durgapur SME Loan Processing Centre, Commerce Bank was drawn to the loan application for working capital from The Passion Hospital. The hospital was provided with a term loan of Rs. 1.89 crore last June by the bank. Though Bhiman had more than 20 years of experience particularly in credit, he had no experience of providing credit to hospitals. He was of the view that hospitals get immediate payment from patients and would not need working capital. The application of the hospital had been forwarded by Ms. Anupama, head of Durgapur branch of the bank to him. Anupama was of the view that Passion Hospital has very good prospects and would be a valuable customer to the bank and hence the working capital loan of Rs. 1.40 crore as requested by the hospital should be sanctioned at the earliest. Bhiman called Mr. Sudhir, an efficient and experienced credit analyst and entrusted the task of analysing the loan application and submit a detailed report within a week.

Sudhir knew that the task involved industry analysis, business analysis, management appraisal, financial analysis, assessing the working capital requirement of the hospital and also the availability of security for the loan. He made up his mind that he would start the work the very next day and wished to complete it within three days.

Passion Hospital's Background

The Passion Hospital (PH) was a multi-specialty hospital set up in 2018 at Durgapur city, Paschim Bardhaman district of West Bengal. Durgapur is a major industrial city in West Bengal. The population of the city and surrounding areas is around 30 lakh. The promoters of PH were of the view that there is a growing shortage of quality health care in the region

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The case is meant for classroom discussions and the names of individuals and organisations have been changed in order to maintain anonymity.

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including Durgapur, Paschim, Purulia, Bankura and Birbhum. They also found that the people in nearby states like Jharkhand too would come to Durgapur for medical treatment.

PH was a 100 bed hospital with various departments including Cardiology, Gastroenterology, Nephrology, Neurology, Orthopedics, Urology, and Emergency Medicine. The hospital had facilities for critical care, dialysis and a dedicated centre for Covid vaccination. It had a well-equipped path lab as well as a pharmacy inside its premises. Mrs Ravindra (wife of Ravindra) is the owner of the pharmacy. It had highly qualified doctors in relevant specialisations as consultants. The hospital is close to a National highway and is easily accessible.

The hospital premises were owned by its promoters and they had given it to the hospital on lease. The name of the firm that owned the hospital was Surya Diagnostics LLP, a limited liability partnership.

Every medical facility requires various statutory clearances and licenses from concerned government authorities. The Passion Hospital had obtained various statutory and other permissions as detailed below:

<i>Name of License</i>	<i>Name of Licensee</i>
Clinical Establishment License	Mr. Ravindra for Surya Diagnostic LLP
Trade License	M/s Surya Diagnostic LLP
License to Operate Lift	Not Obtained
Registration under Pre Conception & Pre-natal Diagnostic Techniques Act	Not Obtained
PESO License	Obtained
License for Xray Atomic Energy	Mr. Prakash (a partner in Surya Diagnostic LLP)
License for Radiography	Mr. Prakash (a partner in Surya Diagnostic LLP)
NABH Accreditation	Application submitted and it is in process.

Indian Healthcare Industry

The healthcare sector consists of businesses that provide medical services, manufacture medical equipment or drugs, provide medical insurance, or otherwise facilitate the provision of healthcare to patients. The health care industry also referred to as medical industry is a sector that provides goods and services to treat patients with curative, preventive, rehabilitative or palliative care. The healthcare industry is composed of establishments devoted to prevention, diagnosis, treatment and rehabilitation of medical conditions.

The hospital industry in India is forecast to grow to Rs. 8.6 trillion (US\$ 132.84 billion) by FY22 from Rs. 4 trillion (US\$ 61.79 billion) in FY17 at a CAGR of 16–17%. The Government of India has planned to increase public health spending to 2.5% of the country's GDP by 2025.

Marketing & Promotion

There are quite a few hospitals in Durgapur and other parts of the district. L N J Hospital, Floral Multispeciality Clinic, Marvellos City Clinic, Famous Medicare Service, Greenview Nursing Home, Applo Medicare Hospital, Appejay Ramaji Hospital, Burdhamann University Medical College Hospital were the leading hospitals in the region and all of them were doing well.

The promoters of PH found that there is a growing need for specialty healthcare and the demand for the same is rising very fast due to factors like growing number of patients with chronic ailments and rising income level and also due to population growth. However, in order to get publicity and to overcome competition they hired marketing teams for promoting the Hospital through various modes and they got good response during the pandemic time. They have also hired various hoardings and banners at strategic locations so as to have wide publicity. Newspaper agents in Durgapur and surrounding areas were also engaged to distribute leaflets and pamphlets to households from time to time.

PH was one of the leading hospitals in the region to provide vaccination against Covid-19 and it helped the hospital to gain popularity very quickly.

PH was a Third Party Administrator (TPA) for health insurance and had tie up with many insurance companies in the country. The tie up facilitated the hospital to provide cashless treatment to its patients.

Promoters of PH

PH was founded by three partners namely, Mr. Pramod, Mr. Siddesh and Mr. Ravindra. All the three were in the business of real estate and construction. The building offered to PH on lease was owned jointly by all the three partners. In 2020, Dr. Lalit joined the LLP as the fourth partner.

Shareholding and other details of the promoters were as under.

Partners Name	Age (Years)	Shareholding (Rs Lakh)	CIBIL Score	Net worth (Rs Lakh)
Mr. Pramod	32	37.23	714 (Normal Risk)	211.07
Mr. Ravindra	34	97.23	695 (Moderate Risk)	330.63
Mr. Siddesh	38	48.71	678 (Moderate Risk)	300.78
Dr. Lalit	40	1.37	789 (Low Risk)	1.37

Pramod, Ravindra and Siddesh own two firms involved in real estate and construction since many years back. They run their business jointly as equal partners.

Dr Lalit was a specialist in emergency medicine and was also the medical superintendent of PH. He was also working for another leading medical college & hospital in the city on full time basis. His qualifications were MBBS, IFEM, MEM. He has provided an unsecured loan of Rs. 95 Lakh to Surya Diagnostics LLP in addition to his equity capital of Rs. 1.37 lakh.

Pramod, Ravindra and Siddesh own a piece of residential plot measuring 30,000 square feet. The land is adjacent to the hospital premises. Valuation of the land as assessed by A&K Consultants as on December 31, 2021 was Rs. 2.00 crore.

Management of PH

The Hospital was managed mainly by Pramod and Ravindra. Other shareholders had given the Power of Attorney to them for signing contracts and for executing other transactions. Finance and accounts of the hospital was managed by Mr. Tarun, who was brother-in-law of Siddesh.

Dr. Lalit had joined the hospital recently as a partner and he was designated as the medical superintendent of the hospital.

Financials of PH

PH incurred losses in its year of inception and since 2019 it reported profits. The audited balance sheet and Profit & loss account of the hospital for latest three years are given in Exhibits 1 and 2. Projected financials of the firm were as in Exhibits 3 and 4. The GST statement of the hospital showed that it had earned Rs. 17.10 crore during the first eight months of FY 2022 as against the estimated sales of Rs. 18.54 crore for the year.

Borrowings from Banks/FI

PH had a current account with Axis Bank and the details of loans outstanding were as below.

<i>Name of Lender</i>	<i>Type of Loan</i>	<i>Amount Sanctioned (Rs Lakh)</i>	<i>Amount Outstanding as on January 31, 2022 (Rs Lakh)</i>
DSP Cooperative Bank	Term Loan	473.20	490.12
DSP Cooperative Bank	Term Loan	26.80	26.80
ICICI Bank	Auto Loan	7.81	3.57
Siemens Financial Services	Term Loan	18.00	11.89
Chola Finance	Commercial Vehicle Loan	12.40	9.12
Chola Finance	Commercial Vehicle Loan	4.00	2.97
Commerce Bank [@]	Term Loan	189.00	194.46
Total		731.21	738.93

@: Provided for the purchase and installation of a various improvised Medical Equipments.

Future Plans of PH

The promoters of PH were of the view that the unmet demand for specialty healthcare in the region was significant. Therefore, they had a plan to create the following facilities in PH within the next two years.

- Specialized Neonatal Care Unit with 10 Beds
- Cath lab
- Upgrading of Surgical Ward by providing Spinal Surgery facilities
- Improvised Dialysis Units with 15 Beds
- Specialized Care unit with Heart Lung Machines

Working Capital Requirements of PH

PH needed working capital mainly because of the delay in settlement of claims by the insurance companies. The statement of debtors as on January 19, 2022 duly certified by an auditor showed that the amount outstanding from various insurance companies was Rs. 2.55 crore. As the business of the hospital was growing it expected the amount of debtors to rise further and it has requested Commerce Bank to provide funding support of Rs. 1.40 crore.

Credit Analysis

Sudhir wanted to analyse the details given above to find out the credit worthiness of PH. He also knew that he has to study the liquidity position of the firm and to estimate out how much working capital the firm would need.

Bhiman, on the other hand, was of the view that if the firm is found credit worthy he would like to convince the management of PH to shift the credit facilities that they were availing from other lending institutions to Commerce Bank. Nevertheless, he was concerned about the security for the loan that he would like to recommend and other terms and conditions that would safeguard the bank's interests. He was also able to appreciate the concerns of Anupama who was struggling to achieve the target given for her branch. Whatever be it he wanted to take a call on PH's application and close it within a week.

Exhibit 1
Audited Balance Sheet of M/s Surya Diagnostics LLP

Liabilities	2020	2021	Assets	2020	2021
Net worth	27.8	373.53	Net Fixed Assets	136.6	821.37
Equity Capital	43	27.8	Investment	54.96	60.26
Res. & Surplus	-15.2	345.73	- In subsidiaries	20.98	5.05
Drawings	--	-22	- Others	33.98	55.21
Term Loan	241.27	565.71	Non-Current Assets	--	8
Current Liabilities and Provisions	11.27	333.79	Total Current Assets	88.78	383.4
- Creditors	10.4		- Stock	0	137.34
- Other current liabilities	0.87	284.11	- Debtors	0	75.84
		49.68	- Other current assets	88.78	170.22
		₹			
Total Liabilities	280.34	1273.03	Total Asset	280.34	1273.03

All figures in INR Lakhs

Exhibit 2
Audited Profit & Loss Account of Surya Diagnostics LLP

	2020	2021
Income From Sales/Service	1.19	1089.29
Other income	0.32	0
Total operating income	1.51	1089.29
Employee Salary	3.69	279.11
Power and fuel	0	8.49
Medicine Charges	0	177.3
Depreciation	0	94.04
Selling, Admin & General Expenses	10.13	448.8
Total operating cost	13.82	1007.74
Operating profit	-12.31	81.55
Interest	2.58	56.58
Non-operating income	0	2.54
PBT	-14.89	24.97
Prov. for Taxes	0	49.68
PAT	-14.89	-24.71

All figures in INR Lakhs

Exhibit 3
Projected Balance Sheet of Surya Diagnostics LLP

Liabilities	2022	2023	Assets	2022	2023
Net worth	486.12	504.15	Net Fixed Assets	969.55	775.64
Equity Capital	200.76	279.31	Investment	64.48	68.99
Res. & Surplus	285.36	224.84	- In subsidiaries	64.48	68.99
Term Loan	691.92	617.5	- Others	0	0
Current Liabilities and Provisions	280.08	269.94	Other Non-Current Assets	13.86	14.33
			Total Current Assets	410.23	532.63
			Stock	173.21	219.42
			Debtors	230.28	306.1
			Other current assets	6.74	7.11
Total Liabilities	1458.12	1391.59	Total Asset	1458.12	1391.59

All figures in INR Lakhs

Exhibit 4
Projected Profit and Loss Statement of Surya Diagnostics LLP

	2022	2023
Income From Sales/Service	1854.07	1984.28
Other income	0	0
Total operating income	1854.07	1984.28
Employee Salary	437.09	515.32
Power and fuel	9.72	11.17
Medicine Charges	450.83	460.47
Depreciation	89.34	84.87
Selling, Admin & General Expenses	727.35	747.94
Total operating cost	1714.33	1819.77
Operating profit	139.74	164.51
Interest	66.55	86
Non-operating income	0	2.54
PBT	73.19	78.51
Prov. for Taxes	15.27	20.27
PAT	57.92	58.24

All figures in INR Lakhs
