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ECLGS 4.0 to support capacity creation in healthcare: ICRA

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The proposed 100 per cent guarantee cover loans of up to Rs 2 crore for setting up oxygen generation plants to support healthcare entities in semi-urban and rural areas

Under the emergency credit line guarantee scheme (ECLGS) 4.0, borrowers who are eligible for restructuring and had availed loans under ECLGS 1.0, will now be able to avail a tenure of five years (as against four years earlier), with a moratorium (where only interest needs to be paid) of 24 months and repayment of principal and interest in 36 months thereafter.

Furthermore, the proposed 100 per cent guarantee cover for loans up to Rs 2 crore with an interest rate cap of 7.5 per cent for setting up oxygen generation plants is expected to support healthcare entities in semi-urban and rural areas where demand has witnessed a sequential rise, given the restrictions and unwillingness to travel to urban areas for treatment, which was a preference in the past.

Mythri Macherla, Assistant Vice President and Sector Head, ICRA said, “With the removal of the cap of Rs 500 crore of loan outstanding for eligibility under ECLGS 3.0 (subject to maximum additional ECLGS assistance to each borrower being limited to 40 per cent or Rs 200 crore, whichever is lower), larger healthcare companies would now have access to funds for creating additional capacities, given the traditional under-penetration of the Indian healthcare services segment. However, sustainability of demand would need to be assessed carefully before any entity embarks upon a large capital expenditure plan, which could impact its credit profile.”

While these funding and liquidity measures by the government are credit positive and 43 per cent of ICRA-rated healthcare entities availed the moratorium during March 2020-August 2021 period, to date, only 10 per cent of the entities have sought funding under the ECLGS. This could presumably be due to the comfortable liquidity position of the ICRA-rated portfolio.”

The performance of the Indian hospital industry was adversely impacted in FY2021 due to the outbreak of COVID-19 and the ensuing lockdown in Q1 FY2021. While the footfalls contracted sharply in Q1 FY2021 during the lockdown, even after the restrictions were lifted, elective surgeries remained relatively lower through Q2 FY2021. While hospital occupancy was supported by Covid-19 during this period, the relatively lower margins and price caps on Covid-19 treatment continued to impact the margins of the ICRA sample set in H1 FY2021.

Hospitals had started witnessing a rise in non-covid occupancies and pick-up in elective surgeries and medical tourism volumes in Q3 and Q4 FY2021. Most hospital entities rated by ICRA were able to tide through the covid situation and consequently, ICRA downgraded ratings of only three hospital entities, while ratings of 12 were upgraded in FY2021.

However, the second wave of COVID-19 and the sequentially higher number of infections disrupted the operations of hospitals across the country from March 2021 onwards. While the number of infections continued to rise through April and most of May 2021, the same started witnessing some reduction in the last few days. Overall, while the performance of the hospital industry is expected to be impacted to a certain extent in Q1 FY2022 due to the resurgence in infections, the same is expected to be sequentially better than Q1 and Q2 FY2021.