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Medica Hospitals Private Limited

October 23, 2020

Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating	Rating Action
1	Long Term Bank Facility	15.00	IVR BBB/ Stable (IVR Triple B with Stable Outlook)	Assigned
	Total	15.00 (Rupees fifteen crore only)		

Details of Facilities are in Annexure 1.

Detailed Rationale

The rating assigned to the bank facilities of Medica Hospitals Private Limited (MHPL) draws comfort from its experienced promoters, corporate tie-ups with reputed organizations, association of experienced doctors, growing popularity in Kolkata as a multi-specialty hospital leading to satisfactory occupancy and average revenue per occupied bed (ARPOB). The rating also note its stable financial performance marked by improvement in total operating income, stable profitability, moderate capital structure with adequate debt protection metrics and efficient working capital management. However, these rating strengths are partially offset by its presence in a fragmented industry, high gestation period, high cost of medical equipment – all resulting in elongated payback period, exposure to regulatory restrictions on revenues and reputational risk.

Key Rating Sensitivities:

Upward Factors:

- Substantial and sustained growth in operating income and improvement in profitability
- Improvement in the capital structure with the overall gearing below 1x and improvement in debt protection metrics

- Downward Factors

- Moderation in operating income and/or cash accrual or deterioration in operating margin to below 7%
- Deterioration in the capital structure and debt protection metrics



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- Any unplanned capex impacting the capital structure and/or liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters**

Dr. Alok Roy (Chairman, MBBS and MD) is a highly renowned doctor having an experience of more than 30 years, looks after the day to day operation of the company. He has offered professional consultancy in reputed institutions like AIIMS, Fortis etc. He has been involved with 17 large hospitals in India and is a renowned hospital management specialist in India. He is ably supported by a team of renowned professionals, who looks after the day to day operations of the hospital.

- **Multi-specialty hospital coupled with satisfactory occupancy and average revenue per occupied bed (ARPOB)**

MHPL provides secondary and tertiary healthcare services in various fields (Cardiology, Gastroenterology, Neurology, Orthopedics, Physiotherapy etc.) with specialists available round the clock exclusively for the hospital. It is equipped with state of the art equipment's (modular OTs with hepa filters and laminar air flow, flat panel digital cath-lab), state-of-the-art ICUs (50% of the hospital beds consists of ICU/CCU/HDU) with facilities of open heart surgery, joint replacement surgery etc. Occupancy rate for the Kolkata unit deteriorated to ~72% in FY19 on account of marginal addition of beds (10 beds) to the total capacity with no major change in the footfalls in the hospital. Overall occupancy improved moderately from ~72% in FY19 to 73% in FY20. Average revenue per in house patient increased in FY19 on account of change in the mix of cases and due to rate revision. For the Ranchi unit, occupancy rate has deteriorated in FY19 and FY20 due to addition of beds while ARPOB have improved in FY19 and FY20. During FY18, MHPL had started a cardiac hospital at Patna (licensed capacity:-90 beds, operational:-63 beds). Owing to the first year of operations the occupancy was low at 48% in FY18. However, it has improved to ~56% in FY20.

- **Corporate tie-ups with reputed organizations**

The hospital is empanelled with renowned Corporate and Government organizations like Airport Authority of India (AAI), Hindustan Petroleum Corporation Limited, Bharat Petroleum



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Corporation Limited, India Oil Corporation Limited, Bharat Sanchar Nigam Limited, Tata Steel Limited, Bharat Heavy Electricals Limited, South Eastern Railway, etc. for providing health care services. Besides, it has tie-ups with leading insurance companies and third party administrators. These empanelment and tie-ups facilitate the hospital in attracting patients as patients mostly prefer facilities like cash less treatment and ease in claim settlement through insurance companies, which in turn leads to higher occupancy rate.

- **Panel of experienced doctors & growing popularity of hospital in Kolkata**

MHPL has a team of experienced doctors of high repute associated with the hospital over the years. Dr. Kunal Sarkar, renowned cardiac surgeon, Dr. Dilip Pahari, Dr. L.N. Tripathi, Dr. Vikash Kapoor, Dr. Sanjay Kumar, Dr. Prabhat Kumar and other renowned doctors are part of the in-house team of MHPL. MHPL has around 217 in-house doctors in Kolkata, around 81 in-house doctors in Ranchi and around 24 in-house doctors in Patna. Besides in-house doctors, MHPL has about 121 qualified doctors in Kolkata, 31 qualified doctors in Ranchi and 22 qualified doctors in Patna associated to it as outdoor patient consultants. All departments of the hospitals have dedicated teams of doctors.

- **Stable financial performance marked by improvement in total operating income, stable profitability, moderate capital structure and adequate debt protection metrics**

The total operating income grew at a CAGR of ~11% during FY17 (Audited)-FY20 (Provisional). It grew by ~6% in FY19 to Rs.410.83 crore and by ~7% to ~Rs.442 crore in FY20 (provisional). Improvement in total operating income is driven by improved average revenue per in-house patient in FY19 and FY20. With improvement in total operating income, profit levels and margins have also improved over the past three fiscals. The capital structure of the company improved gradually over the years with steady accretion of profit to net worth and gradual repayment of term loans. The leverage ratios marked by long term debt equity ratio and overall gearing ratio improved from 1.82x and 2.77x respectively as on March 31, 2018 to 0.71x and 0.77x as on March 31, 2020 (Provisional) respectively. Further, debt protection metrics as indicated by interest coverage ratio and Total debt/GCA has improved from 5.24x and 2.19x respectively in FY19 and remained healthy at 6.50x and 1.41x in FY20 (provisional). During H1FY21, the company has achieved a turnover of Rs. 188.12 crore

- **Efficient working capital management**



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MHPL has a policy to stock inventory of around 20-30 days, based on the general trade parlance across the industry. Out of the total billing/ operating revenue of MHPL, ~65% pertains to cash paying patients followed by balance ~35% covered under Medclaim/ Corporate policies. Accordingly, the collection period remains comfortable and range around 4-5 weeks with a substantial number of patients opting for on-spot cash settlement. On the other hand, MHPL gets a credit period of 85-90 days from its creditors (mainly medicine suppliers) driven by its established presence in the market. The average working capital utilisation remained satisfactory during the period from Sep 19 to Aug 20 at ~72%.

Key Rating Weaknesses

- **Fragmented nature of the industry**

The hospitality sector is highly fragmented with very few players in the organized sector leading to very high level of competition in the business. Going forward, the prospects of the company will be primarily driven by its ability to enhance occupancy level, improve its profitability and sustenance of its capital structure.

- **High gestation period, high cost of medical equipment – all resulting in elongated payback period**

The hospital segment is capital intensive with a long gestation period usually. Generally, the payback period for a new hospital is about 4-5 years. Further, the maintenance capex required for the hospital segment also remains high owing to regular replacement of equipment to remain updated with the latest technology. On the other hand, with technology evolving day by day, the need for training of existing manpower to handle highly sophisticated deliverance of care becomes important. With limited resources and high attrition rates in the healthcare sector, training and development becomes tough, which can in turn impact the desire to offer quality services to the patient. Earlier, the company had a plan to incur capex of Rs.171.50 crore towards establishment of cancer hospital in the existing premises of Kolkata and Ranchi Unit. In this regard the company has incurred only about ~Rs.10 crore till March 31,2020 through its own sources. However, the company now has deferred the capex plan for next fiscal due to recent subdued economic scenarios.

- **Impact of regulatory restrictions on revenues**



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The pricing of multiple medical inputs is controlled by government regulatory agencies, more specifically by NPPA (National Pharmaceutical Pricing Authority) in India with the motive of bringing transparency and rationale in the billing process and to maintain a viable ceiling on the prices of medical inputs. This poses a huge financial burden on the hospitals, due to the rising equipment and operating costs and in some cases it is even difficult for the hospitals to identify if the beneficiary of any subsidised scheme is bonafide or not, which inadvertently affects their top-line. Additionally, the National Accreditation Board for Hospitals and Healthcare providers, under the purview of the Ministry of Commerce (under GoI) provides guidelines for running hospitals emphasizing on protocols and internal control mechanisms.

- **Reputational risk**

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.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Service Sector Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

The liquidity position is expected to remain adequate driven by its expected sufficient cash accrual vis-à-vis its debt repayment obligations. The company has garnered cash accruals of ~Rs.40crore as against its moderate repayment obligation of Rs.8.52 crore in FY20. Further, the company is expected to earn cash accruals in the range of ~Rs.29-62 crore as against its debt repayment obligations in the range of ~Rs.9-10 crore during FY21-23. Moreover, driven by its satisfactory overall gearing at 0.77x as on March 31,2020 (Prov.) the company has adequate gearing headroom. Further, the average utilisation of fund based limit stands at ~72% during 12 months ending August 31, 2020 indicates an adequate liquidity buffer.

About the company

Medica Hospitals Private Limited (MHPL), belonging to the Medica group, was incorporated in January, 2007 and is a 100% subsidiary of Medica Synergy Pvt. Ltd (MSPL), the flagship company of the group. MHPL started its operation in January 2010 by setting up a multi-



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speciality hospital, “Medica Super Speciality Hospital” in Kolkata. Currently, the hospital is operating with a capacity of 346 beds with an occupancy rate of ~73% in FY20. The hospital is equipped with state of the art technology and well qualified & experienced doctors/surgeons. Further, MHPL had also entered into revenue sharing agreement during FY15 with hospitals at Ranchi (operating beds-212 beds), & Patna (operating beds- 63 beds) wherein MHPL will carry out the entire operation & maintenance activities of the Hospital.

Financials: Standalone

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	410.83	441.78
EBITDA	38.24	42.88
PAT	17.64	23.49
Total Debt	91.07	57.10
Tangible Net worth	50.39	73.89
EBITDA Margin (%)	9.31	9.71
PAT Margin (%)	4.24	5.27
Overall Gearing Ratio (x)	1.81	0.77

*Classification as per Infomerics’ standards.

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Term Loan	Long-term	15.00	IVR BBB/ Stable Outlook	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:



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Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	-	-	-	15.00	IVR BBB/Stable Outlook