Press Release

Medica Hospitals Private Limited

May 20, 2024

Ratings

Instrument/ Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	183.43 (reduced from Rs.189.37 crore)	IVR BBB+/ Positive (IVR Triple B Plus with Positive outlook)	Reaffirmed with revision in outlook from Stable to Positive	Simple
Short Term Bank Facilities	3.00	IVR A2 (IVR A Two)	Reaffirmed	Simple
Total	**186.43 (Rupees One hundred eighty-six crore and forty-three lakhs only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of Medica Hospitals Pvt Ltd (MHPL) is driven by established position of Medica Hospital in Kolkata healthcare market, comfortable business profile of the company depicted by improvement in its revenue coupled with its healthy profitability leading to comfortable debt protection metrics in FY24 (Provisional). The ratings also continue to factor in its experienced promoters, investment by reputed and resourceful PE investor in the holding company, satisfactory occupancy and average revenue per occupied bed (ARPOB), corporate tie-ups with reputed organizations, presence of experienced doctors, efficient working capital management and healthy demand outlook for healthcare services in the Eastern India supported by increasing population and per capita income. However, these rating strengths continues to remain partially offset by its exposure to geographical concentration risk and high dependence on Medica Hospital (Kolkata) for revenue and profitability, exposure to intense competition and regulatory risks in the healthcare industry, high gestation period, high cost of medical equipment resulting in elongated payback period and reputational risk in the healthcare industry. The ratings also note its leveraged capital structure. The outlook is revised from stable to positive based on the back of expected improvement in the business performance of the company and consequent improvement in the financial risk profile in the near term.

Rating Sensitivities

Upward factors

- Substantial and sustained growth in operating income and improvement in profitability
- Improvement in the capital structure with the overall gearing to remain below 1x and improvement in debt protection metrics with interest coverage to more than 6x

Downward Factors

- Moderation in operating income and/or moderation in cash accrual or deterioration in operating margin to below 12%
- Any unplanned capex leading to deterioration in the capital structure with overall gearing moderated over 2.5x and/or moderation in debt protection metrics with interest coverage deteriorated to below 3x
- Moderation in liquidity

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoters and investment by reputed and resourceful PE investor in the holding company

Dr. Nandakumar Jairam (Chairman, MBBS and MS-General Surgery, FICS) is a highly renowned doctor having an experience of more than 40 years, looks after the day-to-day operation of the company. Formerly, he has served as Chairman, CEO and Group Medical Director for Columbia Asia Hospitals – India. He is ably supported by a team of renowned professionals, who looks after the day-to-day operations of the hospital. During FY22, Polaris Healthcare Investments Pte. Ltd (Polaris) has acquired the stake from Quadria Capital (existing PE investor). Besides, Polaris has also infused about Rs.114 crore in MSPL. Polaris is a special purpose vehicle of Temasek Holdings (Private) Limited, which is owned by the Government of Singapore and a well reputed global name. Polaris is holding ~87.11% stake in MSPL as on March 31,2023. Presence of strong investors strengthen the financial flexibility of MHPL to an extent.

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, Oncology, 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 remained at ~69% in FY23. Average revenue per in house patient declined by a small margin in FY23 on account of change in the mix of cases and due to rate revision. For the Ranchi unit, occupancy rate has reduced by 1% to ~52% in FY23 from ~53% in FY22 due to decline in footfall of patients.

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 Corporation Limited, India Oil Corporation Limited, Bharat Sanchar Nigam Limited, Tata Steel Limited, Bharat Heavy Electricals Limited, Southeastern Railway, etc. for providing health care services. Besides, it has tie-ups with leading insurance companies and third-party administrators.

Association with experienced doctors & growing popularity of Medica 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 Vikash Kapoor, Dr. Rabin Chakraborty, Dr. Laxminarayan Tripathy and other renowned doctors are part of the inhouse team of MHPL. MHPL has around 270 in-house doctors in Kolkata and around 70 in-house doctors in Ranchi. Besides in-house doctors, MHPL has about 121 qualified doctors in Kolkata and 31 qualified doctors in Ranchi associated to it as outdoor patient consultants. All departments of the hospitals have dedicated teams of doctors.

Comfortable business profile depicted by improvement in revenue and healthy profitability

The total operating income (TOI) of the company reduced by ~3% in FY23 to Rs.524.93 crore from Rs.543.59 crore in FY22 due to shut down of operations in Patna hospital. However, in FY24 (provisional), TOI improved by ~15% to Rs.610.91 crore mainly on the back of commencement of operation of cancer ward from April 2023 onwards. Notwithstanding the dip in total operating income in FY23, absolute EBITDA improved from Rs.50.70 crore in FY22 to Rs.91.86 crore in FY23. The EBITDA margin of the MHPL has also improved from 9.33% in

FY22 to 17.50% in FY23. The improvement in operating profitability is mainly driven by increase in operating efficiency through optimum utilisation of resources coupled with various cost cutting initiatives taken by the management. During FY23, the company has appointed a hospital supply chain management company for its inventory management along with management of procurement of other medicine, lab requirements etc. Appointment of such specialized company has resulted in improvement in its operating profitability to an extent. The growth in operating profitability continues in FY24 (Prov.) marked by the EBIDTA margin at ~20% driven by higher absorption of fixed overheads coupled with addition of revenue from relatively high margin cancer ward. Despite high depreciation, the net profit margin of the company also stood healthy at over 8% in the last two fiscals. The RoCE of the company continued to remain at more than 20% in the last two fiscals. The gross cash accruals from business have also improved to ~Rs.87 crore in FY24 (Prov.) and would also continue to remain healthy going forward, as witnessed in the past. Infomerics does not foresee any major deterioration in the coverage indicators of the company, going forward.

Comfortable debt protection metrics

The interest coverage ratio improved to 7.20x in FY23 as compared to 4.94x in FY22 on the back of increase in absolute EBITDA. The interest coverage ratio though continued to remain healthy, however, has moderated to 6.13x in FY24 (Prov.) mainly due to increase in finance cost. Total debt to EBITDA and Total debt to GCA also remained satisfactory at 1.55x and 2.18 years respectively as on March 31,2024 (Prov.).

Efficient working capital management

MHPL has a policy to stock inventory of around 7-10 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 Mediclaim/ 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 60-75 days from its creditors (mainly medicine suppliers) driven by its established presence in the market. The average working capital utilisation remained satisfactory for last 12 months ended November 2023 at below 1%.

Healthy demand outlook for healthcare services, supported by increasing population and per capita income in Eastern India

The long-term demand outlook of the healthcare industry remains favourable on the back of a significant demand supply gap in the country's healthcare service sector and an increasing trend of medical tourism in India besides penetration of health insurance in the country.

Key Rating Weaknesses

Exposure to geographical concentration risk and high dependence on Medica Hospital for revenue and profitability

Despite being in operation for more than 15 years and enjoying continued patronage from the local population, the company's major portion of revenue is contributed by Medica Super speciality Hospital located in Kolkata. MHPL has one more hospital in Ranchi named as Bhagwan Mahavir Medica Super Specialty Hospital. Hence, it has a geographical concentration risk considering its major revenue from single hospital.

Leveraged capital structure

The capital structure of the company has remained leveraged over the past years. The overall gearing ratio moderated as on March 31, 2023 to 2.47x from 2.16x as on March 31, 2022 due to availment of new term loan to fund capital expenditure for establishment of cancer ward during the year. This apart the net worth of the company is also impacted due to creation of intangible asset on account of non-compete fees payable to the tune of Rs.53.67 crore to Dr. Alok Roy on his retirement from the Board. However, the overall gearing has improved as on March 31, 2024 (prov.) to 1.63x underpinned by scheduled repayment of term loans and accretion of profit to reserves.

Exposed to intense competition and regulatory risks in the healthcare industry

The company faces competition from other hospitals in the region. Further, it remains exposed to regulatory risks and challenges, as prevalent in the healthcare sector in terms of restrictive pricing regulations levied by Central and State Governments which could constrain the profit margins of the healthcare industry and consequently, affect MHPL going forward.

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.

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)

Criteria of assigning rating outlook

Policy of default recognition

Criteria on complexity

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 is expected to earn cash accruals in the range of ~Rs.96.08-118.97 crore as against its debt repayment obligations in the range of ~Rs.14.04-18.53 crore during FY25-FY27. Further, the average utilisation of fund-based limit stands at below 1% during 11 months ending November 30, 2023 indicating a healthy liquidity buffer.

About the Company

Medica Hospitals Private Limited (MHPL), belonging to the Medica group, was promoted in January, 2007 and is a 100% subsidiary of Medica Synergy Pvt. Ltd (MSPL), the flagship company of the group. Presently, MHPL is having two hospitals under its fold, Medica Super Speciality Hospital in Kolkata (362 beds) and Bhagwan Mahavir Medica Super Specialty Hospital in Ranchi (202 beds). MHPL started its operation in January 2010 by setting up a multi-speciality hospital, "Medica Super Speciality Hospital" in Kolkata.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	543.59	524.93

EBITDA	50.70	91.86
PAT	0.21	62.96
Total Debt	166.60	197.56
Tangible Net worth	77.01	80.05
EBITDA Margin (%)	9.33	17.50
PAT Margin (%)	0.04	11.79
Overall Gearing Ratio (x)	2.16	2.47
Interest Coverage Ratio	4.94	7.20

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: None

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
					April 18, 2023		Jan 21,2022
1	Term Loan	Long Term	143.43 (reduced from Rs.149.37 crore)	IVR BBB+/ Positive	IVR BBB+/ Stable		IVR BBB+/ Stable
2	Cash Credit	Long Term	40.00	IVR BBB+/ Positive	IVR BBB+/ Stable		IVR BBB+/ Stable
3	Bank Guarantee	Short Term	3.00	IVR A2	IVR A2		IVR A2

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit www.infomerics.com

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	-	-	October 2033	143.43	IVR BBB+/ Positive
Cash Credit	-	-	-	40.00	IVR BBB+/ Positive
Bank Guarantee	-	-	-	3.00	IVR A2

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-Medica-may24.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.