



Press Release

Medica Hospitals Pvt Ltd

January 21, 2022

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity indicator
1.	Long Term Bank Facilities	176.79 (Enhanced from 37.40)	IVR BBB+; Stable (IVR Triple B Plus with Stable Outlook)	Revised from IVR BBB; Stable (IVR Triple B with Stable Outlook)	Simple
2.	Short Term Bank Facilities	3.00	IVR A2 (IVR A Two)	Assigned	Simple
	Total	179.79 (Rupees one hundred seventy-nine crore and seventy nine lakhs only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the long-term rating and assignment of short term rating to the bank facilities of Medica Hospitals Pvt Ltd (MHPL) is driven by change in the management of the holding company i.e Medica Synergie Pvt Ltd from Erstwhile PE investor, Quadria Capital to Polaris Healthcare Investments PTE. Ltd, a Special Purpose Vehicle of Temasek Holdings (Private) Limited. The revision in the rating also factors in improvement in financial performance of the company in H1FY22. Further, the ratings continue to derive comfort its comfortable capital structure with adequate debt protection metrics and efficient working capital management, experienced promoters, corporate tie-ups with reputed organizations, association of experienced doctors, growing popularity of Medica hospital in Kolkata as a multispecialty hospital leading to satisfactory occupancy. However, these rating strengths remained partially offset by its presence in a fragmented industry, high gestation period of hospitals & high cost of medical equipment resulting in elongated payback period, exposure to regulatory



Press Release

restrictions and exposure to reputational risk. Further, the ratings also note exposure to ongoing project execution 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 to remain below 1x and improvement in debt protection metrics with interest coverage at more than 6x
- Timely completion of capex with no cost or time overrun

- Downward Factors

- Moderation in operating income and/or cash accrual or deterioration in operating margin to below 7%
- Deterioration in the capital structure with overall gearing moderated over 2x and/or moderation in debt protection metrics with interest coverage deteriorated below 3x
- Any unplanned capex impacting the capital structure and/or liquidity
- Time or cost over-run in the on-going project impacting the capital structure of liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

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

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



Press Release

professionals, who looks after the day-to-day operations of the hospital. During FY22, Polaris Healthcare Investments Pte. Ltd has invested in the Holding Company, Medica Synergie Pvt Ltd and infused about Rs.114 crore. Polaris Healthcare Investments Pte. Ltd is a Special Purpose Vehicle of Temasek Holdings (Private) Limited, which is owned by the Government of Singapore and a well reputed global name. Presence of strong investors strengthen the financial flexibility of MHPL to an extent.

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

MHPL provides secondary and tertiary healthcare services in various fields and 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 improved to ~79% in FY21 from ~73% in FY20 with increased footfalls in the hospital because of increased covid patients. Average revenue per in house patient increased in FY21 on account of change in the mix of cases and due to rate revision. For the Ranchi unit, occupancy rate has deteriorated in FY21 due to addition of beds while ARPOB have improved in FY21. 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 ~53% in FY21.

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

The hospital is empanelled with renowned Corporate and Government organizations 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.

- **Association with experienced doctors & growing popularity of Medica hospital in Kolkata**



Press Release

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 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 in FY21 with improvement in H1FY22**

During FY21, the total operating income (TOI), EBITDA and EBITDA margin of the company remained stagnant with a marginal y-o-y growth in TOI at ~1.20% and marginal moderation in EBITDA. In Q1FY21, the operations of the hospital were impacted as the hospital was not prepared to take covid patients and on account of Covid pandemic influx of other patients was low. However, post Q1FY21 the company geared up with covid facilities and managed to surpass its FY20 revenue with rise in average revenue per patient. Despite improvement in TOI, EBITDA level has deteriorated in FY21 due to increase in operating expenses. The PAT level of the company dampened in FY21 due to rise in interest outgo coupled with drop in EBITDA. Accordingly, the PAT margin moderated from 5.36% in FY20 to 4.24% in FY21. However, the company has posted significant improvement in its performance H1FY22 and earned a revenue of ~Rs.306 crore with an EBITDA of Rs.38.63 crore. The Kolkata unit of the company has become a leading covid treatment centre for Eastern India during second wave of COVID and witnessed huge influx of critical patients. Due to influx of patients the occupancy of the hospital increased manyfold which resulted in rise in EBITDA margin. Further, per patient revenue also increased substantially due to critical nature of treatment. With rising cash flow, the absolute EBITDA and interest coverage ratio improved sharply in H1FY22.

- **Comfortable capital structure with adequate debt protection metrics**



Press Release

The capital structure of the company continued to remain healthy and the Debt Equity ratio and Overall gearing ratio improved from 0.77x and 0.90x respectively as on March 31, 2020 to 0.66x and 0.69x respectively as on March 31, 2021. The improvement in capital structure is driven by scheduled repayment of term loan and accretion of profit to reserves. The debt protection metrics as indicated by interest coverage ratio and Total debt/GCA though moderated from 5.54x and 1.59 years in FY20 to 4.62x and 1.49 years in FY21 due to dip in EBITDA leading to dip in gross cash accruals and rise in interest outgo continues to remain satisfactory.

- **Efficient working capital management**

MHPL has a policy to stock inventory of around 8-10 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 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 Nov. 20 to Oct. 21 at ~52%.

Key Rating Weaknesses

- **Implementation of large size debt funded capex**

Healthcare industry is a capital-intensive industry with long gestation period. Further, the maintenance capex required for the healthcare industry also remains high owing to regular replacement of equipment's to update with the latest technology. The company had started new capex for establishment of cancer hospital in the existing premises of Kolkata and Ranchi Unit at a total estimated cost of Rs.201.63 crore. The above capex is to be financed via long term debt of Rs.133.88 crore and remaining via creditors /internal accruals. In this regard the company had already incurred about ~Rs.48.79 crore till Sep. 30, 2021, through promoter's fund of Rs.31.79 crore and term loan of Rs.17.00 crore. The construction of the building in Kolkata has started from



Press Release

February 2020 and is expected to be completed by June 2022. Thereafter the trial run will start, and the hospital will start operation in phases. The full commercial operation will start from April 2023 (COD: April 01, 2023). The size of the project being implemented is large vis-à-vis the net worth position of the Company. The project is expected to be funded at a debt equity ratio of 1.98:1. The Company had already tied-up of term loan for the project. Successful implementation of the project without cost and time-overrun and achievement of break-even shall remain crucial. Further, infusion of equity to support the project funding shall also be a key rating monitorable.

- **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.

- **Exposure to regulatory restrictions**

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



Press Release

and to maintain a viable ceiling on the prices of medical inputs. The hospitals are also mandated to treat certain patients belonging to the economically weaker section of the society at a subsidised cost. 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.

- **Exposure to 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.37 crore as against its moderate repayment obligation of Rs.5.61 crore in FY21. Further, the company is expected to earn cash accruals in the range of ~Rs.51-71 crore as against its debt repayment obligations in the range of ~Rs.10.03-10.84 crore during FY22-24. Moreover, driven by its satisfactory overall gearing at 0.69x as on March 31, 2021, the company has adequate gearing headroom. Further, the average utilisation of fund-based limit stands at ~52% during 12 months ending Oct. 31, 2021 indicates an adequate liquidity buffer.

About the Company



Press Release

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. MHPL started its operation in January 2010 by setting up a multi-speciality hospital, “Medica Super Speciality Hospital” in Kolkata. Currently, the hospital is operating with a capacity of 346 beds with an occupancy rate of ~79% in FY21. The hospital is equipped with state-of-the-art technology and well qualified & experienced doctors/surgeons. Further, MHPL had also entered into revenue sharing agreements with hospitals at Ranchi (operating beds-212 beds) wherein MHPL will carry out the entire operation & maintenance activities of the Hospital.

Financials (Standalone):

	(Rs. crore)	
For the year ended* / As On	31-03-2020	31-03-2021
	Audited	Audited
Total Operating Income	444.45	451.56
EBITDA	43.17	42.18
PAT	24.13	19.34
Total Debt	65.70	62.90
Tangible Net worth	72.90	90.94
EBITDA/SBITDA Margin (%)	9.71	9.34
PAT/Surplus Margin (%)	5.36	4.24
Overall Gearing Ratio (x)	0.90	0.69

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: CARE ratings vide its press release date April 21, 2021 maintained the rating in issuer not cooperating category due to non-submission of information by the company.

Any other information: Nil

Rating History for last three years with Infomerics:



Press Release

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years			
		Type	Amount outstandin g (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020- 21		Date(s) & Rating(s) assign ed in 2019- 20	Date(s) & Rating (s) assign ed in 2018- 19
1.	Term Loan	Long Term	156.79	IVR BBB+ / Stable Outlook	IVR BBB / Stable Outlook (Novemb er 10, 2020)	IVR BBB / Stable Outlook (October 23, 2020)	-	-
2.	Cash Credit	Long Term	20.00	IVR BBB+ / Stable Outlook	IVR BBB / Stable Outlook (Novemb er 10, 2020)	IVR BBB / Stable Outlook (October 23, 2020)	-	-
3.	Bank Guarantee	Short Term	3.00	IVR A2	-	-	-	-

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About Infomerics:

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.



Press Release

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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
Long Term Bank Facilities –Term Loan	-	-	October 2033	156.79	IVR BBB+; Stable Outlook
Long Term Bank Facilities – Cash Credit	-	-	-	20.00	IVR BBB+; Stable Outlook
Short Term Bank Facilities – Bank Guarantee	-	-	-	3.00	IVR A2

Annexure 2: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Medica-hospitals-lenders-jan22.pdf>

Annexure 3: List of companies considered for consolidated analysis: Not Applicable.

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.