Press Release

Medica Hospitals Pvt Ltd

April 18, 2023

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	Rs. 189.37 (Enhanced from 176.79)	IVR BBB+; Stable (IVR Triple B Plus with Stable Outlook)	Reaffirmed	Simple
Short Term Bank Facilities	Rs.3.00 crore	IVR A2 (IVR A Two)	Reaffirmed	Simple
Total	**192.37 (Rupees One hundred and Ninety-Two Crore & Thirty Seven 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 its stable financial performance in FY22 and in FY23 in terms of revenue and operating profit and moderate capital structure with adequate debt protection metrics. The ratings also factor in its experienced promoters, investment by reputed and resourceful PE investor in the holding company, 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 and efficient working capital management. However, these rating strengths continues to remain 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 restrictions and exposure to 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 to remain below 1x and improvement in debt protection metrics with interest coverage at more than 6x

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

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 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 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 moderated to ~69% in FY22 from ~79% in FY21 with decline in footfalls in the hospital because of lower covid patients during the year as compared to FY21. For the Ranchi unit, occupancy rate in FY22 remained same as FY21 at ~53%. Average revenue per in house patient in FY22 declined in both the units on account of change in the mix of cases.

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, 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 Vikash Kapoor, Dr. Rabin Chakraborty, Dr. Laxminarayan Tripathy and other renowned doctors are part of the in-house 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.

Stable financial performance in FY22 and in FY23 in terms of revenue and operating profit

The total operating income of the company improved by ~20% in FY22. Improvement in total operating income is driven by increase in number of in-house patients per day. The EBITDA margin of the MHPL has deteriorated marginally from 9.34% in FY21 to 8.51% in FY22. The moderation in EBITDA margin is due to increase in purchase of medicines and medical consumables. Despite, improvement in EBITDA level, net profit had dropped from Rs.19.34 crore (PAT margin 4.24%) in FY21 to Rs.0.46 crore (PAT margin 0.08%) in FY22. The dip in net profit is due to exceptional loss in FY22 amounting to Rs.21.59 crore on account of one-time write-off of COVID vaccine inventory on account of change in Government policy and on account of one-time expense related to closure of the Patna unit.

The revenue of MHPL is estimated to be moderated marginally in FY23 to Rs.528.61 crore as FY22 was exceptional year for hospital because of rise in Covid 19 cases, where the hospital has posted higher revenue due to higher revenue from covid 19 patient in FY22. However, in FY23 there was increase in non- COVID related business. In FY23, MHPL posted higher margins due to better service mix and cost rationalisation and also on account of significant saving in Material Cost (Medicines & Consumables).

Moderate capital structure with adequate debt protection metrics

The capital structure of the company moderated to 1.57x as on March 31, 2022 from 0.69x as on March 31, 2021 with availment of new term loan for capital expenditure for establishment of cancer ward during the year. Further, debt protection metrics as indicated by interest coverage ratio improved to 5.71x as compared to 4.62x in FY21. This is due to decline in finance charges as loan was disbursed toward the end of the year in FY22 and interest charges were lower during the year.

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 for last 12 months ended December 2022 at ~10%.

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.

Impact of regulatory restrictions on revenues

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. 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.

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 for assigning Rating outlook.

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.60-85 crore as against its debt repayment obligations in the range of ~Rs.33.85-48.32 crore during FY24-FY25. Further, the average utilisation of fund-based limit stands at ~10% during 12 months ending December 31, 2022 indicates 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. 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 ~69% in FY22. 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	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	451.56	543.78
EBITDA	42.18	46.29
PAT	19.34	0.46
Total Debt	62.90	144.78
Tangible Net worth	90.94	92.16
EBITDA/SBITDA Margin (%)	9.34	8.51
PAT/Surplus Margin (%)	4.24	0.08
Overall Gearing Ratio (x)	0.69	1.57
Interest Coverage (times)	4.62	5.71

**Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: NIL.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years			
		Type	Amount outstanding. (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	
1.	Term Loan	LT	149.37 (Reduced from 156.79)	IVR BBB+/Stable	-	IVR BBB+/Stable(Jan 21,2022)	IVR BBB / Stable (Nov 10, 2020)	IVR BBB / Stable (Oct 23, 2020)
2.	Cash Credit	LT	40.00 (Enhanced from 20.00)	IVR BBB+/Stable	-	IVR BBB+/Stable(Jan 21,2022)	IVR BBB / Stable (Nov 10, 2020)	IVR BBB / Stable (Oct 23, 2020)
3.	Bank Guarantee	ST	3.00	IVR A2	-	IVR A2(Jan 21,2022)	-	-

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About Infomerics:
Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Press Release

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

For more information visit https://www.infomerics.com/

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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	-	-	Oct 2033	149.37	IVR BBB+/Stable
Cash Credit	-	-	-	40.00	IVR BBB+/Stable
Bank Guarantee	-	-	-	3.00	IVR A2

Annexure 2: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/Len-Medica-Hospitals-apr23.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 https://www.infomerics.com.