Press Release

Radiant Life Care Pvt. Ltd. (formerly, Halcyon Finance & Capital Advisors Pvt. Ltd.)
February 22, 2018

Rating

Instrument / Facility	Amount	Rating	Rating Action
Non-Convertible Debentures	Rs.147.50 crores	IVR A-/Stable Outlook (IVR Single A minus with Stable Outlook)	Assigned
Long-term loan	Rs.65.00 crores	IVR A-/Stable Outlook (IVR Single A minus with Stable Outlook)	Assigned
Total	**Rs.212.50 crores**		

Details of Facility are in Annexure 1

Detailed Rationale

The ratings derive comfort from strong brand reputation of the hospitals, experienced management team, support from reputed private equity player (KKR) and substantial debt reduction, state of the art medical care at competitive pricing, hospitals on the cusp of a financial turnaround and healthy growth prospects for the Indian healthcare industry. The ratings are however constrained by weak financials and high leverage, concentration risk, Nanavati hospital being the weaker performing hospital in the portfolio, fiercely competitive healthcare industry and capital intensive nature of the industry. Business growth, profitability and gearing levels are the key rating sensitivities.

List of Key Rating Drivers

- Strong brand reputation of the hospitals
- Experienced management team
- Support from reputed private equity player (KKR) and substantial debt reduction
- State of the art medical care at competitive pricing
- Hospitals on the cusp of a financial turnaround
- Healthy growth prospects for Indian healthcare industry
- Weak financials and high leverage.
- Concentration risk

- Nanavati hospital being the weaker performing hospital in the portfolio.
- Fiercely competitive healthcare industry
- Capital intensive nature of industry

Detailed Description of Key Rating Drivers

Key Rating Strengths

- **Strong brand reputation of the hospitals**

  Both the hospitals in the Radiant Life Care Pvt. Ltd. (Radiant) portfolio enjoy considerable brand reputation in their respective location. Nanavati Hospital, located in suburban Mumbai is one of the leading hospitals of the city. It has long legacy with 350 beds and is conveniently located near to the Airport. It has a large employee pool comprising of 300 specialists and super specialists. The hospital also runs Diplomate of the National Board (DNB) course with over 50 residents and has a nursing college providing a pool of in house trained specialists and nurses. The hospital uses latest generation technology in OTs, Radiology, Imaging, Laboratories, etc. The hospital has revamped its existing infrastructure and has developed an international tourism business with tie ups in the Middle East.

  BLK Hospital, located in central New Delhi is also conveniently located with a long legacy. The hospital has 650 beds, 350 doctors, 800 nurses and undertakes 50 clinical programmes. The hospital has achieved some notable successes including separation of conjoined twins and kidney transplant of a HIV+ patient. It has a large medical tourism business contributing 30% of revenue. The hospital runs the DNB programme across 11 departments.

  Both the hospitals are going through refurbishment of their properties which will add incremental value to their operations and is attracting patients.

- **Experienced management team**

  Radiant is managed by a team of highly qualified & experienced professionals under the guidance of a five member Board of Directors led by Shri Abhay Soi. Shri Soi is well supported by the other Directors including Shri Sanjay Nayar having significant experience of more than two decades. Prior to Radiant, Abhay co-founded a USD 300 million Special Situations Fund, where he made investments across sectors such as

Mining, Financial Services, Agri-processing, Retail, Paper & Paperboards manufacturing, Textiles and Specialty Chemicals. Abhay started his career with Andersen Consulting where he helped in setting up their financial restructuring business and subsequently led the restructuring services team of E&Y and KPMG. Further, the board is well supported by a team of experienced professionals.

- **Support from reputed private equity player (KKR) and substantial debt reduction**

  Radiant in August 2017 received substantial equity support from a reputed private equity player, KKR, who infused equity of Rs.685 crore. The funds have been used for prepayment of debt of Rs.340 crore, buyout of 49% stake in Radiant Life Care Mumbai Pvt Ltd at Rs.150 crore and the balance is held as cash and liquid investments. KKR is also expected to infuse incremental equity of Rs.315 crores into the company by August 2018. Further, KKR has provided loans of Rs.65 crores to Radiant.

- **State of the art medical care at competitive pricing**

  The hospitals in the Radiant portfolio are well known for delivering state of the art medical care in several therapeutic areas. The hospitals however, price themselves competitively vis-à-vis similar hospitals like Gangarams in New Delhi and Lilavati in Mumbai. This supports the future growth prospects for the hospitals.

- **Hospitals on the cusp of a financial turnaround**

  Both the hospitals, Nanavati and BLK, are currently characterised by high leverage and thin to negative PAT margin. However, there is a perceptible change since the Radiant group took over BLK from 2010 and Nanavati in 2015. In addition, with the repayment of debt post fund infusion from KKR, their financials are likely to improve. Further with the ongoing refurbishment plan, the future revenue generation is expected to be better. In the short run, it is expected that the hospitals will post a significant turnaround with improvement in margins and capital structure.

- **Healthy growth prospects for Indian healthcare industry**

  Healthcare has become one of India's largest sectors both in terms of revenue & employment. The industry is growing at a tremendous pace owing to its strengthening coverage, services and increasing expenditure by public as well private players. During 2017-20, the market is expected to record a CAGR of 16.5 per cent. The total industry size is expected to touch USD160 billion by 2017 & USD280 billion by 2020. This will support the future growth plans of the two hospitals under the Radiant group.

Key Rating Weaknesses

- **Weak financials and high leverage.**
  Radiant during the nine months ended December 31, 2017 exhibited weak financials and high leverage, on a consolidated basis. It posted EBIDTA margin of 11.3% with negative PAT margin of 6.3%. The company has been aided by the inflow of equity of Rs.685 crores by KKR in FY18. Debt protection metrics are highly stretched on account of negative cash accruals. However, Long term Debt / EBIDTA is moderate at 5.92x.
- **Concentration risk**
  The company's portfolio comprises of only two hospitals which are in the process of a financial turnaround. The portfolio is thus, limited in size as compared to large hospital groups.
- **Nanavati hospital being the weaker performing hospital in the portfolio.**
  Radiant has been managing Nanavati hospital for the past two years. It is yet to see sustained high positive EBIDTA margin. It may be noted that Nanavati hospital is the weaker performing hospital in the portfolio at present.
- **Fiercely competitive healthcare industry**
  The healthcare industry is very competitive with a large number of established organized players and their growing network of hospitals. The healthcare and specialty hospitals sector mainly comprises of large national level players, organized regional players, government hospitals, charitable trusts and a large number of nursing home and multi-specialty clinics making it highly competitive. The competition is expected to intensify with the expected entry of Public Private Partnerships in this segment.
- **Capital intensive nature of industry**
  The hospital segment is a capital intensive with a long gestation period. Generally, the payback period (PBP) for a new hospital is about 5-6 years due to lower occupancy rate in the initial phase of operation. 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. Hence, going forward, any debt funded capex plans for expansion purpose at a larger scale is critical from credit perspective.

Analytical Approach & Applicable criteria

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

About the Company

Halcyon Finance & Capital Advisors Pvt. Ltd. (Halcyon) was incorporated in 2004 as a private limited company. Recently, the name of the company has been changed to Radiant Life Care Pvt Ltd (Radiant). The company is in the business of developing & operating high-end quaternary care facilities. The company currently operates two hospitals, Nanavati Hospital in Mumbai and BLK Hospital in New Delhi through separate subsidiaries / step down subsidiaries.

Financials (Consolidated)

The company has not prepared consolidated financials prior to December 2017. Hence we are unable to present the previous period numbers.

(Rs. Crore)

For 9MFY18/As on	31-12-2017
	Provisional
Total Operating Income	631.9
EBITDA	71.2
PAT	-39.9
Total Debt	403.4
Tangible Net worth	263.6
EBIDTA Margin (%)	11.27
PAT Margin (%)	-6.32
Overall Gearing ratio (%)	1.53

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years:

S. No.	Name of Instrument/Facilities	Current Rating (Year 2017-18)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16	Date(s) & Rating(s) assigned in 2014-15
1.	Non-Convertible Debentures	Long Term	147.50	IVR A-/Stable	--	--	--

				Outlook			
2.	Long Term Loan	Long Term	65.00	IVR A-/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:

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.

Annexure 1: Details of Facility

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility(Rs. Crores)	Rating Assigned/ Outlook
Non-Convertible Debentures	November, 2016	12.5%	November, 2021	147.50	IVR A-/Stable Outlook
Long Term Loan	November, 2016	12.5%	November, 2021	65.00	IVR A-/Stable Outlook