

Press Release

OSL Healthcare Pvt Ltd.

November 27, 2018

Ratings

| Sl. No. | Instrument/Facility | Amount (Rs. Crore) | Rating Assigned | Rating Action |
|----------------|------------------------------------|---------------------------|---|----------------------|
| 1. | Proposed Long Term Debt- Term Loan | 840.00 | IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook) | Assigned |
| 2. | Proposed Fund Based Facilities | 10.00 | IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook) | Assigned |
| | Total | 850.00 | | |

Details of Facilities are in Annexure 1

Detailed Rationale

The rating derives strength from the experienced management team, support from Nayati group, state-of-the-art hospital catering to niche segments, locational advantage along with the healthy growth prospects of the healthcare industry with potential for international tourism.

The rating, however, is tempered by the small scale of operation at present, leveraged capital structure and weak debt protection metrics, project implementation risk, vulnerability to reputational risks along with capital intensive and competitive nature of industry.

Successful commissioning and completion of project without any time or cost overrun, thereby resulting in growth in operation and improvement in capital structure going forward are the key rating sensitivities.

List of Key Rating Drivers

- Experienced Management
- Support from Nayati group
- State-of-the-art-hospital catering to niche segments
- Locational advantage.

- Healthy growth prospects for Indian Healthcare industry
- Small scale of operation
- Project implementation risk
- Leveraged Capital Structure and weak debt protection metrics
- High vulnerability to reputation risk
- Fiercely competitive healthcare industry
- Capital intensive nature of industry

Detailed Description of Key Rating Drivers

Key Rating Strengths:

Experienced management

OHPL is managed by a team of highly qualified & experienced professionals who have extensive experience in the healthcare segment and form a six member Board of Directors along with Ms. Niira Radia (Chairperson) who was a leading consultant on public relationship having offered services to the Tata Group, Vedanta Resources, Reliance Group and others. Dr. Rajeev Sharma, who is on the board of OHPL, is well known in the medical fraternity.

Support from Nayati group

Nayati group has adequate experience in healthcare industry through its various companies. The group runs a 351 bedded hospital in Mathura, Uttar Pradesh, under the name of "Nayati Medicity" which commenced operation from May 2016. Moreover, the company also has a 59 bedded medicentre located at Agra, which serves as a feeder facility for the Mathura hospital. Apart from these, the group has also set up another entity, Nayati Pharma Pvt. Ltd., which is engaged in trading of pharmaceutical related products like antibiotics, drugs, medicines, surgical instruments, cosmetics, hospital requisites and other allied products.

State-of-the-art-hospital catering to niche segments

Vimhans Nayati Hospital, is a speciality hospital located in Lajpat Nagar, South Delhi. The hospital extends medical services in various specialised segments like Neurology, Neurosurgery, Orthopaedics and joint replacement along with other disciplines.

Locational advantage

Vimhans Nayati Hospital, is prominently located in the heart of South Delhi and very well connected with the other parts of the city. Further, the upcoming hospital in Gurgaon is also located in the heart of the city on the Golf Course Road and very near to the metro station.

Key Rating Weaknesses:

Small scale of operation

The operations of the company, under the previous management, remained small in terms of profitability and topline during the last three years. In FY16 OHPL has made bookloss though there was no cash loss whereas in FY17 OHPL has made bookloss and cash loss. The losses were mainly due to incurring high level of consultancy fees and business promotion expenses.

Project implementation risk

The hospital, under previous management, has already missed a couple of CODs. OSL has again revised the scope of the project under the new management and is currently setting up a 592 bed super speciality hospital in Gurgaon in a phased manner at a total cost of around Rs.1200.00 crore

Leveraged Capital Structure and weak debt protection metrics

Due to its large on-going hospital project, the capital structure of the company remained leveraged, however the same is expected to be improve going forward. Further, there were delays in servicing of the term loans during the stint of old promoters before April, 2018. However, the new promoters after taking over the company have liquidated all the old term loans.

High vulnerability to reputation risks

Healthcare is a highly sensitive sector where any mishandling of a case or negligence on the part of any doctor and/or staff of the unit can lead to adverse publicity and affect operation.

Fiercely competitive healthcare industry

The healthcare industry is very competitive with a large number of established organised players and their growing network of hospitals catering to middle/high income group. 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. 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.

Analytical Approach & Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-Financial Sector)

About the Company

Incorporated in 2007, OSL Healthcare Private Limited (OHPL) is engaged in the healthcare service industry with its 35 bed hospital, Vimhans Nayati Hospital, (erstwhile ‘Vimhans Prima Med’) in Lajpat Nagar, South Delhi. The company is also setting up a 592 bed hospital under the name of “Nayati Medicity” in Gurgaon. Nayati Vimhans Hospital under management of OHPL is an operational hospital offering medical services in various disciplines (including in the fields of Neurology, Neurosurgery and Orthopaedics and joint replacement). Although the hospital is 74 bedded, 35 are actually operational. OHPL is revamping the hospital to operationalize the entire capacity at a cost of around Rs.30.00 crore, proposed to be financed out debt of around Rs.20.00 crore and balance out of CCD. The project has since started. Also, OHPL is implementing the 592 bed hospital in Gurgaon in two phases. Under phase I, the company has incurred Rs.334.60 crore, till June 30, 2018.

Financials:

| For the year ended* / As On | 31-03-2017 (Audited) | 31-03-2018 (Audited) |
|------------------------------------|---------------------------------|---------------------------------|
| Total Operating Income | 28.46 | 26.66 |
| EBITDA | 1.40 | 3.03 |
| PAT | -15.32 | -1.42 |
| Total Debt | 196.54 | 201.77 |
| Tangible Networth | 51.92 | 50.09 |
| EBITDA Margin (%) | 4.92 | 11.38 |

| | | |
|---------------------------|--------|-------|
| PAT Margin (%) | -53.83 | -5.45 |
| Overall Gearing Ratio (x) | 3.79 | 4.03 |

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA:Not applicable

Any other information: N.A

Rating History for last three years:

| S. No. | Name of Instrument/ Facilities | Current Rating (Year 2018-19) | | | Rating History for the past 3 years | | |
|--------|-----------------------------------|-------------------------------|--------------------------------|-----------------------------------|---|---|---|
| | | Type | Amount outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2017-18 | Date(s) & Rating(s) assigned in 2016-17 | Date(s) & Rating(s) assigned in 2015-16 |
| 1. | Proposed Term Loan | Long Term | 840.00 | IVR BBB-/ Stable Outlook | -- | -- | -- |
| 2. | Proposed Fund based Limits | Long Term | 10.00 | 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:

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. 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 |
|----------------------------|------------------|------------------|---------------|------------------------------|-----------------------------|
| Proposed Term Loan | NA | NA | NA | 840.00 | IVR BBB-/ Stable Outlook |
| Proposed Fund based Limits | NA | NA | NA | 10.00 | IVR BBB-/ Stable Outlook |