

Paras Healthcare Private Limited

December 02, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	372.98 (Enhanced from 327.64)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Long Term/ Short Term Bank Facilities	37.64 (Enhanced from 16.00)	CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable/ A Two)	Reaffirmed
Total Bank Facilities	410.62 (₹ Four Hundred Ten Crore and Sixty-Two Lakhs Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Paras Healthcare Private Limited (PHPL) continue to derive strength from its experienced and professional management team with proven track-record of over a decade in the healthcare industry, strong operational performance of its flagship hospitals based in Gurgaon (Haryana) & Patna (Bihar) which have strong brand image as multi-specialty hospitals having state-of-the-art medical facilities/ equipment, gradual diversification of revenue in terms of therapeutic segment and positive outlook for the healthcare sector in India.

The ratings also take cognizance of significant growth in PHPL's scale of operations in FY22 (refers to the period April 01 to March 31) and H1FY23 (refers to the period April 01 to September 30) and profitability with gradual scaling-up of operations of another two multi-specialty hospitals i.e. Panchkula and Udaipur and advance stage of completion of on-going greenfield Ranchi hospital project.

The above rating strengths, however, are partially offset by expected deterioration in PHPL's leverage and debt coverage indicators on account of on-going/ proposed large size debt-funded capex projects along with presence of execution and stabilisation risk associated with the capex projects. The ratings also take into account, fragmented nature of healthcare industry leading to increase in competition from other organized & unorganized regional players in respective regions and challenges pertaining to attracting & retaining quality doctors.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Early stabilization of project-phase hospitals resulting in significant growth in its scale of operations while maintaining PBILDT margin above 15% on a sustained basis.
- Improvement in capital structure with healthy augmentation of its network base.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Decline in total operating income (TOI) by 20% and PBILDT margin below 12% on a sustained basis.
- Delay in execution and stabilisation of project-phase hospitals resulting in lower than envisaged revenue and profitability.
- Continued debt-funded expansion in hospital network leading to higher than envisaged deterioration in overall gearing.

Detailed description of the key rating drivers

Key Rating Strengths

Significant growth in scale of operations along with improvement in profitability:

PHPL's consolidated TOI grew by 30% on y-o-y to Rs.779.92 crore in FY22 (Rs.598.40 crore in FY21), owing to improvement in occupancy levels and average revenue per occupied bed (ARPOB) of its existing operational hospitals at Gurgaon and Patna along with increase in revenue share of its another two other multi-specialty hospitals at Panchkula and Udaipur.

Furthermore, during FY22, PHPL's PBILDT margins exhibits significant improvement, due to healthy margins reported by Gurgaon Patna Hospitals along with scaling-up of Panchkula Hospital and achievement of Break Even Point (BEP) by Udaipur Hospital in FY22. PHPL's PBILDT margin improved by 595 bps to 15% in FY22 (9.05% in FY21). Consequently, gross cash accruals remained healthy at Rs.81.52 crore as against Rs.36.29 crore in FY21.

With gradual scaling-up of operational performance of Panchkula and Udaipur hospitals, PHPL reported TOI and PBILDT margin of Rs.444 crore and 13% in H1FY23 (Rs.477 crore and 13.28% in 7MFY22). CARE Rating Limited (CARE) expects improvement in PHPL's TOI and profitability in near term with increase in occupancy levels of its existing operational hospitals (except Patna and Darbhanga) along with commencement of operations of project-phase hospitals.

¹ Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Strong operational performance of its two flagship hospitals with gradual scaling-up in operations of other multi-specialty hospitals:

PHPL commenced operations of its first hospital in Gurgaon in 2006 and then gradually expanded its operations to other regions. Currently, PHPL is operating six multi-super specialty hospitals under the brand name of 'Paras', two of which is located in Haryana, two in Bihar, one in Rajasthan and one in Jharkhand, and further expanding to other two states i.e. Uttar Pradesh and Jammu & Kashmir. Gurgaon and Udaipur hospital (acquired in June, 2022 through 100% equity infusion in Plus Medicare Hospitals Private Limited, PMHPL) are owned by PHPL, whereas other hospital operates on lease arrangements basis for a long tenure of around 20-35 years.

Paras Hospital, Gurgaon has operational track record of around 15+ years, while Paras HRMI Hospital, Patna has a track record of around 8+ years. Over the last three years ended on FY22, the occupancy level of Gurgaon hospital remained healthy at 70-75% whereas the occupancy level of Patna hospital remained at 70-80%. Collectively, Gurgaon and Patna hospitals contributed around 70% of PHPL's the gross revenue for FY22 (72% in FY21). With commencement of other new hospitals in Patna, PHPL's occupancy level of Patna Hospital remained moderate at 62% in H1FY23 (70% in H1FY22).

Nevertheless, PHPL's overall occupancy levels envisage to improve in FY23 onwards, with gradual scaling-up of operations of Panchkula and Udaipur hospitals along with commencement of operations of multi-specialty hospital at Srinagar. PHPL's concentration on its Gurgaon and Patna hospitals is envisage to decline with gradual improvement in scale of operations of other hospitals.

Advance stage of completion of on-going greenfield Hospital project at Ranchi, Jharkhand; albeit shall remind exposed to stabilisation risk:

PHPL, through its wholly owned subsidiary Paras Healthcare (Ranchi) Private Limited (PRHPL), has entered into a concession agreement with Heavy Engineering Corporation Ltd (HEC, a Government of India undertaking headquartered at Ranchi) for the operations and management hospital at Ranchi, Jharkhand with existing 50 bed capacity (Phase-I) (operation commenced from November 2019) along with expansion of another 250-bed capacity on adjacent land provided by HEC for a period of 35 years. The execution of said project was initially delayed owing to COVID-19 outbreak, nevertheless, PHPL had commenced operation of another 120 beds (Phase-II) w.e.f. April, 2022.

The balance capex of Phase-III (130 bed capacity) is at advance stage of completion. Till September 30, 2022, Rs.72 crore was incurred by PHPL, out of total estimated cost of Rs.96.15 crore, funded by project debt of Rs.18 crore and balance through unsecured loans from PHPL. As articulated by the company, Ranchi hospital with total 300 bed capacity will be completed by the end of FY23 and expects to commence commercial operations from Q1FY23. Thus, scaling-up of its operations and realisation of envisaged benefits shall remain crucial from credit perspective.

Experienced and professional management team with proven track record of operations in healthcare industry:

Dr. Dharminder Nagar, managing director, has an experience of over more than two decades in the healthcare industry. He graduated as a doctor from Mysore University in 1995 and possesses M. Phil in Hospital and Health System Management from Birla Institute of Technology and Science, Pilani. He has also undertaken an Executive Management Program in Healthcare delivery from Harvard Business School and holds an Advanced Diploma in Healthcare Management and Health Systems Administration from Imperial College, London. He is ably supported by the team of experienced professions for day to day operations as well as strategic decisions.

PHPL has an experienced team of around 3060 employees including Doctors, Nursing and other support staff. The promoters have also ensured availability of renowned medical practitioners across multiple therapeutic segments which have resulted in gradual increase in occupancy as well as built their reputation in the respective segments. Reputed doctors like Padmashree Dr. V.S. Mehta, has been associated with PHPL for past 15+ years and is serving as the director of Paras Institute of Neurosciences. Padmashree Dr. Alka Kriplani, (a Dr. B.C. Roy National awardee) is also associated with PHPL for past 5+ years and heads the Gynecology, Obstetrics and Antiretroviral therapy (ART) department. Further, PHPL has invested consistently in up gradation and renewal of medical equipment to support their activities. Thus, all the PHPL's hospitals are well equipped with state-of-the-art and high-end medical equipment with latest technology.

Gradual diversification of revenue in terms of therapeutic segment:

PHPL offers a wide range of medical and surgical care in almost all major therapeutic segments (more than 55 specialties). PHPL earned major revenue from cancer care (~14% of total gross revenue for FY22), Orthopedics & joint replacement (~13%), Cardiology (~12%), and Neurosurgery (~9%) segments which collectively contributed 48% of its gross revenue during FY22 while the balance was from other segments including Neurology, Nephrology, Gastroenterology & GI surgery, Cardiac surgery and Urology among others.

Positive long-term outlook for the healthcare sector in India: The Indian healthcare sector has exhibited a strong compounded annual growth rate (CAGR) of 14% to 15% during FY16-FY22, led by growing demand augmented by affordability, policy support by the government and aggressive greenfield and brownfield expansion by hospital chains. Comfortable liquidity position, favourable interest rates and capital structures have aided the industry. CARE Ratings expects healthcare services in India continue to grow at healthy rate on account of likely rise in per capita income and health insurance markets and a transition in disease profile of the country arising from growing lifestyle diseases. In addition to this, the healthcare industry is extending the services of e-consultations and other home care services that will also support their revenues. As per CARE Ratings estimates, the bed capacity of leading hospital chains is also expected to increase by 30% by FY25. With hospital chains foraying into retail pharmacies, diagnostics, clinics and specialty clinic chains, the sector is witnessing integration and retailisation across.

Key Rating Weaknesses

Leveraged capital structure and weak debt coverage indicators: During FY17, PHPL had raised equity capital by way of Compulsory Convertible Preference Shares (CCPSs) from private equity (PE) firm. The CCPSs were converted into equity capital in September 2018. As per the shareholder's agreement and the terms of the PE, there is a buyback obligation on PHPL to purchase shares held by PE firm at a fair market value after the expiry of 63 months from July 14, 2017. Earlier, under the IGAAP accounting, PHPL had reported CCPSs as shareholder's fund. However, post adoption of IND-AS, PHPL has now measured value of the equity capital held by PE at fair value and reclassified major portion of value of shares under liability at a fair market value. This treatment of equity shares held by PE was largely due to exit option available with the investor and buyback obligations on PHPL. The gain/loss on fair valuation of this equity capital has been reported under other income in profit & loss statement.

On account of collective effect of these changes, PHPL's outstanding debt has increased substantially whereas its tangible net worth has declined due to losses reported by PHRPL during last four financial years ended on FY22. As on March 31, 2022, adjusted total debt stood at Rs.498 crore as on FY22 end (Rs.436 crore as on FY21 end), resulting in adjusted overall gearing and adjusted TOL/TNW of 6.90x and 8.90x as on FY22 end (5.01x and 6.43x as on FY21 end). CARE expects deterioration in PHPL's capital structure in the near term owing to debt-funded on-going and proposed capex projects.

As on March 31, 2022 PHPL had cash and liquid investment of Rs.181 crore, after netting off the same, net debt of the company stood at Rs.317 crore (Rs.209.26 crore as on FY21 end) resulting in net-debt gearing ratio of 4.39x as on FY22 end (2.41x as on FY21 end).

With the improvement in profitability during FY22, debt coverage indicators remained comfortable as indicated by PBILDT interest coverage ratio of 3.52x in FY22 (1.71x in FY21); albeit adjusted total debt to GCA remained high at 6.11 years in FY22 (12 years in FY21).

Execution and stabilisation risk associated on-going and proposed debt-funded capex projects:

PHPL is undertaking/proposed huge debt-funded capex at Kanpur, Srinagar, Udaipur and Panchkula, to be completed in next three years ended on FY25. The total estimated cost of the said capex (incl. regular non-committed maintenance) is estimated at around Rs.554 crore (excl. on-going Ranchi project), to be funded by term debt of around Rs.260 crore and balance through available liquid investments (pertaining to PE investor's fund pending its deployment)/ internal cash accruals/USL from promoters and directors. PHPL has already achieved financial closure for all the projects except Panchkula. Till September 30, 2022, PHPL has floated capital advances of around Rs.75 crore for acquisition of medical & surgical equipment etc. for Kanpur and Srinagar Hospitals, partly funded by project debt and available liquid funds/ internal cash accruals. PHPL has also acquired land at Udaipur (through 100% equity infusion in PMHPL) and Panchkula adjoining to existing hospital, however, project execution is yet to be commence.

PHPL, expects to commence commercial operations of Srinagar and Udaipur Hospital from Q1FY24 onwards, whereas Kanpur Hospital (Phase-I) from H1FY24. Thus, execution of said capex projects within envisaged cost and time parameters with realization of envisaged benefits shall remain crucial from the credit perspective.

Challenges of attracting and retaining quality medical professionals: Undertaking new hospital projects and expanding its existing facilities requires adequate availability of trained doctors and medical personnel. Further, probable loss of the services of any senior medical personnel may seriously impair the company's ability to continue to manage and expand its operations due to highly skill driven nature of medical services. However, given the increasing competition and scarcity of quality medical specialists, the ability of the company to retain its current medical fraternity would be a key differentiator. PHPL strategically selects the location of its expansion projects in the regions which have existing medical college so as to attract doctors and medical professionals from the same region.

Fragmented nature of healthcare industry leading to increasing competition: The healthcare sector is highly fragmented with few large players in the organised sector and numerous small players in the unorganised sector leading to high level of competition in the business. Thus, differentiating factors like range of services offered, quality of service, pedigree of doctors, success rate in treatment of complex/critical diseases, etc. will be crucial in order to attract patients and increase occupancy.

Liquidity: Adequate

PHPL's liquidity continue to remain adequate marked by healthy surplus available in form of GCA of Rs.82 crore vis-à-vis LT debt repayment obligations of Rs.35-50 crore in FY23-FY25. PHPL reported cash flow from operation of Rs.40.02 crore in FY22 (Rs.53.93 crore in FY21). PHPL majorly utilises overdraft facilities against Fixed deposits to take interest rate benefit, thus, maximum utilisation of fund-based working capital limits remained low at 32% during trailing 11 months ended on August 31, 2022.

As on March 31, 2022, PHPL had free cash and bank balances of Rs.194 crore including liquid investments of Rs.181 crore largely pertaining to funds received from PE, pending its deployment in capex/ acquisition purposes (FY21 end: Rs.250 crore including liquid investment of Rs.164 crore). CARE expects this cushion to reduce with deployment of funds towards PHPL's on-going/ proposed capex projects. Current ratio stood comfortable at 1.41x in FY22 (1.57x in FY21).

Analytical approach: Consolidated, the audited financials as on March 31, 2022 and un-audited financials as on September 30, 2022 of Paras Healthcare Private Limited and its wholly owned subsidiary namely Paras Healthcare (Ranchi) Private Limited is considered for analysis owing to strong operational and financial linkages.

List of subsidiaries consolidated in PHPL as on March 31, 2022 is mentioned in Annexure 6.

Applicable Criteria

[Policy on default recognition](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Consolidation](#)

[Hospital](#)

About the Company

PHPL was promoted by Dr. Dharminder Nagar in 2006 having successful operational track record of more than a decade in healthcare industry. Presently PHPL operates six multi-super specialty hospitals in North and East India with a total inventory of 1,102 beds. In July 2017, Creador, a Southeast-Asia based and India focused private equity (PE) firm had invested Rs.260 crore (through Commelina Ltd., its investment vehicle) by subscribing 62,245 equity share along with 10,22,182, 0.01% Series A compulsorily convertible preference shares (CCPS). These CCPS were then converted into ordinary equity shares in September 2018. Post this conversion, Commelina Ltd. held 24.68% equity stake in PHPL.

Brief Financials (₹ crore) - Consolidated	March 31, 2021 (A)	March 31, 2022 (A)	September 30, 2022 (P)
Total operating income	598.40	779.92	443.60
PBILDT	54.15	117.01	56.20
PAT	-25.35	-14.81	18.56
Overall gearing (times)	7.15	10.31	8.03
Overall Gearing excl. lease liability (times)	5.01	6.90	5.31
Interest coverage (times)	1.71	3.52	6.96

A: Audited; P: Provisional

Status of non-cooperation with previous CRA: ICRA vide its press release dated May 2013, suspended the outstanding rating of PHPL on account of non-receipt of requisite information from the company for carrying out the rating exercise.

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument/ facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based-Long Term		-	-	-	50.50	CARE BBB+; Stable
Non-fund-based-LT/ST		-	-	-	37.64	CARE BBB+; Stable / CARE A2
Term Loan-Long Term		-	-	March, 3034	322.48	CARE BBB+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Term Loan-Long Term	LT	322.48	CARE BBB+; Stable	-	1)CARE BBB+; Stable (03-Dec-21)	1)CARE BBB+; Stable (07-Jan-21)	1)CARE BBB+; Stable (30-Dec-19)
2	Fund-based-Long Term	LT	50.50	CARE BBB+; Stable	-	1)CARE BBB+; Stable (03-Dec-21)	1)CARE BBB+; Stable (07-Jan-21)	1)CARE BBB+; Stable (30-Dec-19)
3	Non-fund-based-LT/ST	LT/ST*	37.64	CARE BBB+; Stable/ CARE A2	-	1)CARE BBB+; Stable / CARE A2 (03-Dec-21)	1)CARE BBB+; Stable / CARE A2 (07-Jan-21)	1)CARE BBB+; Stable / CARE A2 (30-Dec-19)

*Long Term/ Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument/ facilities: Not Applicable**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based-Long Term	Simple
2	Non-fund-based-LT/ST	Simple
3	Term Loan-Long Term	Simple

Annexure-5: Bank lender details for this companyTo view the lender wise details of bank facilities please [click here](#)**Annexure 6: List of entities consolidated in PHPL as on March 31, 2022**

S. No.	Name of the entity	Domicile	% shareholding of PHPL	Primary business activity of the entity
1	Paras Healthcare (Ranchi) Private Limited	India	100%	Operation and maintenance of a Multi-specialty hospital at Ranchi, Jharkhand

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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