

Paras Healthcare Private Limited

December 03, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	327.64 (Reduced from 340.02)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	16.00 (Reduced from 18.00)	CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable/ A Two)	Reaffirmed
Total Bank Facilities	343.64 (Rs. Three Hundred Forty-Three Crore and Sixty-Four Lakhs Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers for the credit enhanced debt

The ratings assigned to the bank facilities of Paras Healthcare Private Limited (PHPL) continue to derive strength from its experienced and qualified management team with proven track-record of over a decade in the healthcare industry, its association with a team of reputed doctors and 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/equipments. The ratings also take into account growth in its total operating income (TOI) during 7MFY22 (refers to the period April 01 to October 31) along with improvement in operational and financial performance of its newly commissioned multi-specialty hospital at Panchkula (Haryana) and positive outlook for the healthcare sector in India.

The ratings, however, continue to be constrained on account of decline in its profitability during FY21 on account of operational losses in its newly commissioned hospitals which are at nascent stage of operation, aggressive large size debt funded acquisition plan and inherent gestation risks associated with its various newly commissioned multi-specialty hospitals at Udaipur (Rajasthan), Ranchi (Jharkhand) and Panchkula (Haryana) in light of challenges pertaining to attracting & retaining quality doctors as well as intense competition from other established organized & unorganized regional players in those regions. The ratings also take into account further deterioration in its leverage and debt coverage indicators.

Rating Sensitivities

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

- Early stabilization of project-phase hospitals resulting in significant improvement in scale of operation and profitability margin in range of 16% to 18% on a sustained basis.
- Reduction in Total Debt to PBILDT below 2.50 times on a sustained basis.

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

- Continued debt-funded expansion in hospital network leading to further deterioration in overall gearing.
- De-growth in total operating income and PBILDT margin below 7%.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and qualified management team with a proven track record of over a decade: Dr. Dharminder Nagar, managing director of PHPL, has an experience of over 20 years 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 an experienced team which assists him in the day to day operations as well as strategic decisions.

Established operations as a multi-specialty hospital with strong brand image in north India: PHPL commenced operations of its first hospital in Gurgaon in 2006 and then gradually expanded its operations to other regions. Currently, PHPL operates 6 multi-super specialty hospitals. Out of these six facilities, two in Haryana, two in Bihar, one in Rajasthan and one in Jharkhand, operates under the brand name of 'Paras'. Gurgaon hospital is owned by PHPL, whereas other hospitals operates on lease arrangements basis. The lease agreements are for a long tenure of around 20-35 years. The hospitals are equipped with state-of-the-art and high-end medical equipment with latest technology. 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 its cancer care (~13% of total gross revenue), Orthopedics & joint replacement (~12%), Cardiology (~12%), and Neurosurgery (~10%) segments which collectively contributed 47% of its gross revenue during FY21 while the balance was from other segments including Neurology,

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Nephrology, Gastroenterology & GI surgery, Cardiac surgery and Urology among others. During FY22, the company has started providing oncology services.

Strong operational performance of its two established hospitals i.e. Gurgaon & Patna: 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 FY20, the occupancy level at the Gurgaon hospital remained in the range of 70-75% whereas the occupancy level of Patna hospital remained in the range of 75-80%. The occupancy levels come down in FY21 due to Covid-19 outbreak. However, hospitals witnessed a gradual uptick and occupancy levels returned to pre-covid levels during 7MFY22 and expected to continue the better occupancy levels. Collectively, the Gurgaon and Patna hospitals contributed around 72% of the gross revenue of PHPL during FY21 (83% in FY20). Further, with the gradual improvement in scale of operations of newly established hospital at Panchkula, PHPL's dependency on its Gurgaon and Patna hospitals are expected to reduce.

Experienced team of doctors supported by sophisticated technology: PHPL has an experienced team of around 2,750 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 previous 4 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. In past, PHPL has successfully completed many complex surgeries in various specialties. PHPL performs more than 1,000 complex neurosurgeries, 2600+ cardiac surgeries, 30,000+ dialysis procedures and more than 650 joint replacement surgeries on an annual basis.

Growing scale of operations: PHPL's TOI remained stable during FY21 over FY20 despite Covid-19 outbreak led disruptions in the operations during FY21 and further TOI grew by ~37% (on annualised basis) during 7MFY22 and stood at Rs.477 crore as compared to Rs.595 crore during FY21. The growth in TOI was supported by increasing revenue contribution from its recently commissioned two multi-speciality hospitals at Panchkula and Udaipur. During FY21, total number of patients treated by PHPL (incl. all of its hospitals) reduced as against FY20 on account of Covid-19 outbreak coupled with occurrence of flood in Gurgaon region. However, the numbers of patients treated has increased during 7MFY22. Further, income from medical services contributed nearly 67% to PHPL's TOI and balance was contributed from pharmacy services in FY21 and so on.

PHPL witnessed improvement in its operational and financial profile post Covid-19 outbreak: Hospital earns a significant amount of its revenue from two segments i.e. Inpatient Department (IPD) and Outpatient Department (OPD). During the FY21 with the outbreak of Covid-19; the number of patients in OPD has gone down significantly owing to the reluctance of people at large to visit hospitals due to fear of getting infected from other patients. The IPD segment also witnessed a significant decline in the occupancy levels due to postponement of elective and nonessential surgeries. As medical treatments cannot be deferred for long, hospitals witnessed a gradual uptick in the occupancy levels during 7MFY22. CARE Ratings believes the fundamentals of the sector to remain intact and continue to grow backed by an increase in demand for modern healthcare facilities, a rise in awareness about diseases, health consciousness among people, increase in per capita income, changing lifestyle, transition in disease profile, etc. PHPL's operational and financial performance was affected FY21 due to Covid-19 pandemic. However, PHPL witnessed improvement in its operational and financial performance during 7MFY22 and it is expected to continue going forward.

Positive long-term outlook for the healthcare sector in India: CARE expects healthcare services in India to grow at healthy rate on account of likely rise in per capital income and health insurance markets coupled with favourable demography situation and a transition in disease profile of the country.

Key Rating Weaknesses

Decline in profitability and gross cash accruals during FY21: The PBILDT margin of the company declined to 8.58% during FY21 as compared to 9.91% during FY20 on account of higher operational cost pertaining to its nascent stage hospitals at Panchkula (operational from October 2018), Udaipur (Operational from October 2019) and Ranchi (Phase – I i.e. 50 beds operational from November 2019). Further, due to decline in PBILDT margin coupled with higher depreciation cost and interest outgo, the company has reported net loss of Rs.25.35 crore during FY21 (net loss of Rs.0.50 crore in FY20). Due to lower profitability, Gross Cash Accruals (GCA) of the PHPL stood at Rs.18.57 crore during FY21 (Rs.28 crore in FY20). However, during 7MFY22, PBILDT margin improved significantly and resumed to pre-covid level i.e.~13%. PHPL expects the gradual improvement in operational and financial performance of its Panchkula hospital which shall contribute to PHPL's overall profitability in FY22.

Acquisition plan pertaining to Metro Hospital, Faridabad not materialized: PHPL had planned to acquire Metro Hospital, Faridabad by transfer of shares for a purchase consideration of Rs.544 crore. Out of total consideration, Rs.304 crore was to be paid upfront (towards 60% holding) and balance Rs.240 crore through two equal tranches (2nd & 3rd) in FY24 and FY25 towards balance 40% holding.

Later PHPL relinquished their plan to acquire Metro Hospital, Faridabad as the Metro Group was not in agreement for dilution of its ownership stake in the hospital. Due to irreconcilable differences between both the parties, acquisition plan of Metro hospital could not be materialized.

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 company 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 I-GAAP 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 on fair valuation of this equity capital has been reported under other income in profit & loss statement. Due to the collective effect of these changes, PHPL's outstanding debt has increased substantially whereas its tangible net worth has reduced and resulted into further deterioration in overall gearing as on March 31, 2021.

Adjusted total debt stood at Rs.429 crore as on March 31, 2021 (as compared to Rs.345 crore as on March 31, 2020), including term loan of Rs.132 crore, working capital borrowing of Rs.59 crore and Rs.238 crore of financial liability, as a component of equity share held by the PE firm (*adjusted for the impact of Ind-AS 116 i.e. lease liabilities not considered in total debt to make the numbers comparable*). Further, PHPL also have cash and liquid investment of Rs.189 crore as on March 31, 2021, after netting off the same, net debt of the company stood at Rs.240 crore as on March 31, 2021.

Capital structure of the company continued to remain leveraged marked by adjusted overall gearing of 4.98 times and adjusted TOL/TNW of 6.49 times respectively as on March 31, 2021 as against 3.07 times and 4.00 times respectively as on March 31, 2020. Further, due to decline in its profitability and gross cash accruals, the debt coverage indicators marked by total debt to Gross Cash Accruals and PBIDLT interest coverage of the PHPL deteriorated in FY21 as compared to FY20.

On-going green-field projects at Ranchi, Jharkhand under the concession agreement with Heavy Engineering Corporation Limited (HEC): PHPL, through its wholly owned subsidiary, Paras Healthcare (Ranchi) Private Limited, has entered into a concession agreement with HEC for the operations and management of 300 bed hospital at Ranchi, Jharkhand including the existing 50 bed hospital (commenced operation from November 2019) along with expansion of another 250 bed capacity on adjacent land provided by HEC for a period of 35 years.

As on October 31, 2021, PHPL has incurred total cost of project of Rs.41 crore towards Ranchi hospital, which has been funded through the mix of term debt of Rs.18 crore and remaining through internal accrual and available liquid funds. The remaining capex shall be incurred in FY22 as well as next year. The project progress delayed owing to COVID-19 outbreak, however, phase – II of Ranchi hospital (additional 250 beds) is expected to become operational w.e.f. December 2022 (earlier envisaged April 01, 2022) and phase-III from FY23 onwards. Timely completion of the Ranchi hospital project within envisaged cost parameters and realization of envisaged benefits thereof would be extremely crucial from credit perspective.

Undertaking of two greenfield projects for setting-up of multi-specialty hospitals at Kanpur and Srinagar: PHPL is planning to set-up a new multi-specialty hospital at Kanpur (450 bed capacity) in a phased manner with planned capital expenditure over 4 years commencing from FY22. The estimated cost of the project would be Rs.151 crore, shall be funded through term debt of ~Rs.98 crore and remaining through internal accrual and available liquid funds.

Further, PHPL is planning to set-up an another specialized Nuero-surgery OPD at Srinagar (200 bed capacity) in association with Ramzaan Hospitals, Srinagar. The estimated cost of the project to PHPL would be Rs.27 crore, limited to the acquisition of medical instruments/ equipment. The same shall also be funded through the mix of term debt of Rs.16.50 crore and remaining through internal accrual and available liquid funds. Timely completion of its these projects within envisaged cost parameters and realization of envisaged benefits thereof would be extremely crucial from credit perspective.

Challenges of attracting and retaining quality medical professionals: Undertaking new hospital project and expanding 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

Hospital business requires low working capital as it is also reflected by PHPL's negative working capital cycle, as sizeable revenue is on cash payment basis or on a fixed credit from insurance providers (Third Party Agents). PHPL's liquidity remained healthy marked by cash and liquid investment of Rs.189 crore as on March 31, 2021 (largely pertaining to funds received from PE, pending its deployment in capex/ acquisition of the hospitals). PHPL's liquid investment in form of fixed deposits stood at Rs.170 crore as on November 24, 2021. PHPL's working capital utilization remains moderate at ~52% during trailing 12-month ended on September 2021.

Further, PHPL had gross cash accruals of Rs.19 crore and cash flow from operation of Rs.53 crore during FY21 as against the payment obligation of Rs.39 crore for FY22. PHPL's liquidity is expected to remain adequate backed by cushion available in form of available cash & bank balance. Progress and materialisation of exit of the PE investor (namely Commelina Ltd., its investment vehicle) which is due at the end of December, 2023 would remain key monitorable factor from credit rating perspective.

Analytical Approach: Consolidated, the un-audited financials of Paras Healthcare Private Limited and its wholly owned subsidiary i.e. Paras Healthcare (Ranchi) Private Limited as on March 31, 2021 is considered for analysis owing to strong operational and financial synergies and common management.

List of PHPL's subsidiaries consolidated in PHPL as on March 31, 2021 is mentioned in **Annexure 3**.

Applicable Criteria:

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology – Hospital Industry](#)

[Financial Ratios – Financial Sector](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology: Consolidation](#)

About the Company

PHPL was promoted by Dr. Dharminder Nagar in 2006 and it presently operates six multi-super speciality hospitals in North and East India with a total inventory of 1,175 beds which includes Paras Hospital Gurgaon - 250 beds, Paras HMRI Hospital, Patna - 350 beds, Paras Global Hospital, Darbhanga - 100 beds, Paras Hospital, Panchkula - 225 beds, Paras HEC Hospital, Ranchi - 50 beds and Paras JK Hospital, Udaipur - 200 beds. The hospitals at Gurgaon and Patna are accredited by NABH (National Accreditation Board for Hospitals & Healthcare Providers) and the lab and blood bank facilities at Gurgaon are accredited by NABL (National Accreditation Board for Testing and Calibration Laboratories).

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, as on March 31, 2021, Commelina Ltd. held 24.68% equity stake in PHPL.

Brief Consolidated Financials of PHPL

Brief Financials (Rs. crore)	FY20 (Aud.)	FY21 (Prov.)	7MFY22 (Prov.)
Total operating income	589.43	595.37	476.62
PBILDT	58.41	51.12	63.30
PAT	(0.81)	(25.35)	24.68*
Overall gearing incl. lease liability (times)	4.67	7.22	NA
Overall gearing excl. lease liability (times)	3.07	5.06	NA
Interest coverage (times)	2.26	1.61	NA

Aud.; Audited; Prov.: Provisional; NA: Not available; *Assuming income tax rate @ 25%

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Covenants of rated facility: Detailed explanation of covenants of the rated instruments/ facilities is given in Annexure-4

Complexity level of various instruments rated for this company: Please refer Annexure-5

Annexure - 1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	-	-	March 2029	272.06	CARE BBB+; Stable
Fund-based-Long Term	-	-	-	55.58	CARE BBB+; Stable
Non-fund-based-LT/ST	-	-	-	16.00	CARE BBB+; Stable / CARE A2

Annexure - 2: Rating History of last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Term Loan-Long Term	LT	272.06	CARE BBB+; Stable	-	1)CARE BBB+; Stable (07-Jan-21)	1)CARE BBB+; Stable (30-Dec-19)	1)CARE A-; Stable (08-Oct-18)
2	Fund-based-Long Term	LT	55.58	CARE BBB+; Stable	-	1)CARE BBB+; Stable (07-Jan-21)	1)CARE BBB+; Stable (30-Dec-19)	1)CARE A-; Stable (08-Oct-18)
3	Non-fund-based-LT/ST	LT/ST*	16.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (07-Jan-21)	1)CARE BBB+; Stable / CARE A2 (30-Dec-19)	1)CARE A-; Stable / CARE A2+ (08-Oct-18)

*LT/ST: Long term/ Short Term

Annexure -3 List of entities consolidated in PHPL as on March 31, 2021

S. No.	Name of entity	Domicile	% of shareholding of PHPL as on March 31, 2021	Primary business activity of the entity
1.	Paras Healthcare (Ranchi) Private Limited	India	100%	Multi-Super Specialty Hospital at Ranchi, Jharkhand

Annexure - 4: Detailed explanation of covenants of the rated facilities: Not Applicable

Annexure - 5: Complexity level of various instruments rated for this company

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

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

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