

Wockhardt Hospitals Limited

February 04, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term / Short Term Bank Facilities	50.00	CARE BB+; Stable / CARE A4+ (Double B Plus; Outlook: Stable/ A Four Plus)	Revised from CARE A4+ (A Four Plus)
Total Bank Facilities	50.00 (Rs. Fifty Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has revised rating assigned to the Bank Guarantee facility of Wockhardt Hospitals Limited (WHL) from 'Short Term' rating to 'Long Term/Short Term' rating based on terms of sanction letter shared by the company. The ratings assigned to bank facility of WHL are constrained by continuous losses at net level in last several years, modest capital structure, regulatory risk associated with hospitals and competitive nature of industry. However, ratings continue to derive strength from experienced promoters, established brand name, improvement in operating performance during FY21 and 9MFY22, strong presence in western India and stabilization of operations across all 5 hospitals.

Rating Sensitivities

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

- Improvement in occupancy levels resulting in company reporting post tax profits on sustained basis
- Repayment of debt obligations ensuring gearing below 0.25x

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

- Losses at PBILDT level on a sustained basis
- Increase on overall gearing over 1.0x

Detailed description of the key rating drivers

Key Rating Weaknesses

Improvement in operational performance in FY21 and 9MFY22; albeit losses continues at net level

During FY21, WHL's turnover remained flat at Rs.499 crore (PY: Rs.496 crore). However, the hospital is able to post operating profit of Rs.72 crore in FY21 as against Rs.0.65 crore in FY20, led by reduction in doctors' pay-out and other cost overheads. Employee cost, consultancy, clinical charges and other overheads stood at 52% of total revenue for FY21 (FY20: 63% of total revenue). Owing to same, WHL has posted cash profit of Rs.29.25 crore for FY21 as against cash loss of Rs.44.89 crore in FY20. Due to improvement in operational performance, the company was able to support itself, without any major fund infusion from the promoters. During 9MFY22, WHL has reported total revenue of Rs.470.04 crore with PBILDT of Rs.40.08 crore. WHL's overall occupancy improved from 45% in FY20 to 49% in FY21. However, average revenue per occupied bed (ARPOB) fell marginally from Rs.1.09 crore in FY20 to Rs.1.06 in FY21.

Modest capital structure with weak debt coverage indicators

WHL's capital structure remains modest with overall gearing at 0.63x as on March 31, 2021 (PY: 0.54x). WHL has continuous net loss in past several years. However, WHL's capital structure is supported by fund infusion from promoters and associates in form of Optionally Convertible Debentures and Preference shares. Further, WHL does not have any term loan or fund-based facilities from any lenders. No OCDs were converted to equity shares during FY21.

Due to operational losses in past several years, WHL's debt coverage indicators remained weak. However, with improvement in operating margins in FY21, debt coverage indicators shown marginal improvement, albeit continues to remain weak. Total debt to cash from operations improved to 4.19x for FY21 as against 7.89x in FY20.

Empanelled reputed doctors albeit high reliance on scarcely available professionals

The promoters have also ensured that renowned medical practitioners are empaneled with the hospital which will result in gradual increase in occupancy and augment the income in the coming years. However, WHL is highly dependent on the scarcely available doctors and medical practitioners of repute which is inherent to the nature of business. Based on increasing competition and the scarcity of specialists, the ability of the company to have the distinguished and reputed doctors as consultants and surgeon would be a key differentiator.

Highly competitive and capital intensive nature of industry

Hospital industry is a capital-intensive industry with relatively long gestation period. Generally, new hospital takes around 2-3 years' time frame to breakeven at operational level. Establishment, occupancy rate and financial stability in the initial period of operation takes time. Further, the maintenance capex required for the hospital industry also remains high owing to regular replacement of equipment, non-reusable pharmaceutical and surgical products and to update the latest technology. The industry

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

also faces challenges with respect to hiring on-role and/or off-role doctors, nurses and other staff. Hence dependence on human resources is high and is employed and deployed as per requirement. Moreover, the hospital sector is highly fragmented with few large players in the organized sector and numerous small players in the unorganized 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 critical / complex diseases, etc. will be crucial to attract patients and increase occupancy.

Regulatory/Event Risk associated with hospitals

Hospitals operate in a regulated industry. In India, hospitals are governed by various laws such as Indian Medical Council Act 1956, The Clinical Establishments (registration and regulation) Act 2010, Indian Medical Council Regulations 2002 etc. Given the importance of healthcare facilities, Government of India has been taking various steps towards increasing the affordability and coverage of healthcare services in the country by putting price restriction on pharmaceutical entities, medical equipment manufacturers and hospitals services. Various state governments have also implemented the Clinical Practice Establishment Act, bringing in accountability on how hospitals price their cost of services to patient, and penal provisions for violations. Healthcare is a highly sensitive sector where any mistake on a critical case or negligence on part of any doctor and/or staff of the unit can lead to distrust among the masses. Thus, all the healthcare providers need to monitor each case diligently and meticulously to avoid the occurrence of any unforeseen incident which can damage the reputation of a hospital.

Key Rating Strengths

Experienced and resourceful Promoters

Wockhardt group belongs to Dr Habil F Khorakiwala led Khorakiwala family, which has an established track record of over five decades in pharmaceutical sector with global presence across various therapeutic segments. The group is looked after by Mr Habil F Khorakiwala (Chairman), his daughter Ms. Zahabiya Khorakiwala (Managing Director) and sons Dr Murtaza Khorakiwala and Dr Huzaifa Khorakiwala. The board is supported by professionals with adequate experience in their respective fields.

The promoters of the company have been infusing funds over the past few years in the form of 6% redeemable preference shares and optionally convertible debentures (OCDs) to fund the losses and maintenance capex. Over the past few years the promoters have infused Rs.122 crore during FY18-FY20 (Rs.27 crore in FY20, Rs.63 crore in FY19 & Rs.32 crores in FY18 in the company. During FY21 and 9MFY22, the promoters has not infused any funds as the company was able to support its operations with cash profit of Rs.29.25 crore.

Established operations as a single/multi-specialty hospital

WHL provides specialized healthcare and surgical solutions to the patients with 24-hours specialists available for the hospital. The facilities provided are technologically advanced to create convenience for their patients such as wireless equipment (first in Asia), vinyl coated OTs to prevent fungal growth and paper less ICU admissions. It has fully equipped state of the art OTs with, flat panel digital cath-lab, state-of-the-art ICUs which are seamless vinyl coated to prevent fungal growth and 24x7 central monitored patient beds. They have developed expertise in super specialities such as Cardiology, Cardiothoracic surgery, Orthopaedics, Gastroenterology, Obstetrics & Gynecology, ENT, Ophthalmology, Dentistry, Paediatrics, Urology, General Surgery, Minimal Invasive Surgery, General Medicine, Pulmonology, Critical care and Accident & Emergency. They have also entered a strategic alliance with Partners Medical International in Boston, USA. This exclusive association enables access to Harvard's expertise and clinical acumen in the areas of medical innovation and training.

Strong presence in western India; stabilisation in hospital operations

WHL manages a chain of six hospitals under the name of 'Wockhardt Hospitals' located across Maharashtra & Gujarat which are located in Mumbai (2 hospitals), Nagpur (2 hospitals), Nashik (1 hospital) and Rajkot (1 hospital). The hospitals in Mumbai are strategically located viz. Mumbai Central (350 beds), Mumbai Suburban-Mira Road (330 beds) and have been operating since September 2014 and October 2014 respectively. Since COD, both hospitals of Mumbai have stabilized its operations. All the hospitals in Mumbai are multi-speciality offering healthcare facilities under various therapeutic segments. Furthermore, both the hospitals in Nagpur are located in the heart of the city and operating since July 2004 and October 2007, respectively. One of the hospitals in Nagpur is single speciality i.e. in cardiology and the other is into multi-speciality offering medical care in various therapeutic segments. The other hospitals in Nasik and Rajkot are operating with 170 beds and 177 beds, respectively. Of these, the hospital located at Surat is single speciality i.e. in cardiology. The hospitals are favourably located as they cater to the cities in which they are located as well as places located in and around the cities. Operations in Vashi hospital has been handed over to JV partner during FY20. As on March 31, 2021, WHL has operational capacity of 953 beds.

With stabilization of operations across all hospitals, WHL's revenue concentration risk is improved significantly. No single hospital contributes more than 30% of total revenue for year ended on March 31, 2021.

Liquidity: Adequate

WHL's liquidity profile is marked by healthy cash and bank balance of Rs.47.90 crore and current ratio at 1.05x as on March 31, 2021. The company does not have any fund-based limits from lenders. As on January 25, 2022, WHL has free cash and bank balance of ~Rs.10 crore.

Analytical approach: Standalone

Applicable Criteria

[Policy on default recognition](#)
[Financial Ratios – Non financial Sector](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Credit Watch](#)
[Short Term Instruments](#)
[Hospital](#)

About the Company

Incorporated in 1991, Wockhardt Hospitals Limited (WHL), formerly known as First Hospitals & Heart Institute Limited, is promoted by Dr Habil Khorakiwala, Chairman, Wockhardt Group. WHL is a part of Wockhardt group of companies which has an established presence in the pharmaceutical sector through its flagship company i.e. 'Wockhardt Limited' & it is which is engaged in manufacturing and marketing of pharmaceuticals, bio-pharmaceutical formulations, and active pharmaceutical ingredients (APIs) and Vaccines.

WHL provides single-specialty and multi-specialty tertiary health care services through its managed chain of six operational hospitals with a total operational capacity of 953 beds as on March 31, 2021. All the hospitals are run, operated and managed by WHL under the brand name "Wockhardt". WHL has more than a decade old relationship with Partners Harvard Medical International (PHMI) which is involved in clinical training and organizational development. Besides, many of the hospitals managed and run by the company are having accreditation of the NABH (National Accreditation Board of Hospitals & Healthcare).

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (Prov.)
Total operating income	496.92	499.52	470.04
PBILDT	0.65	72.80	40.08
PAT	-66.88	-11.76	NA
Overall gearing (times)	0.54	0.63	NA
Interest coverage (times)	0.01	1.71	NA

A: Audited, Prov.: Provisional, NA: Not available

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 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 (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	-	50.00	CARE BB+; Stable / CARE A4+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/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	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	50.00	CARE BB+; Stable / CARE A4+	-	1)CARE A4+ (15-Feb-21)	1)CARE A4+ (19-Feb-20)	1)CARE A4+ (21-Dec-18)

* 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	Non-fund-based - LT/ ST-Bank Guarantee	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

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:

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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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