Paras Healthcare Private Limited

January 07, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	340.02 (Enhanced from Rs.311.85 Crore)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Reaffirmed**
Long Term / Short Term Bank Facilities	18.00	**CARE BBB+; Stable / CARE A2 (Triple B Plus ; Outlook: Stable / A Two)**	**Reaffirmed**
Total Facilities	**358.02 (Rs. Three Hundred Fifty-Eight Crore and 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 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 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 FY20 (refers to the period April 01 to March 31) along with gradual 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 FY20 on account of losses in newly commissioned hospitals which are at nascent stage of operation, PHPL's aggressive large size debt funded acquisition plan and inherent gestation risks associated with its various newly commissioned multi-specialty hospitals at Panchkula (Haryana), Udaipur (Rajasthan) and Ranchi (Jharkhand) 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 constrained due to its leverage capital structure and expected moderation in overall financial risk profile in FY21 due to outbreak of COVID-19 pandemic.

Rating Sensitivities

Positive Factors

- Timely completion of its ongoing projects within envisaged cost parameters and early stabilization of the operations of the new hospitals thereby resulting in significant growth in its total operating income to more than Rs.750 crore with sustained improvement in its PBILDT margin and ROCE to more than 15%

Negative Factors

- Weakening of PBILDT margin below 7% on sustained basis
- Continued debt-funded expansion adversely impacting its capital structure, debt coverage indicators and free cash flow

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*:* 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, operate under the brand name of 'Paras'. Gurgaon hospital is owned by PHPL, whereas it operates other hospitals on lease arrangements with the lessors. 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

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

wide range of medical and surgical care in almost all major therapeutic segments (more than 55 specialties). PHPL earned major revenue from its Orthopedics & join replacement (~13% of total gross revenue), Cardiology & Cardiac Surgery (12%) and Neurosurgery (12%) segments which collectively contributed 37% of its gross revenue during FY20 while the balance was from other segments including Cancer Care, General & Laparoscopic surgery, Neurology, Nephrology, Gastroenterology & GI surgery and Urology among others.

Strong operational performance of its 2 established hospitals i.e. Gurgaon & Patna: Paras Hospital, Gurgaon has operational track record of around 14 years, while Paras HRMI Hospital, Patna has a track record of around 7 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%. Collectively, the Gurgaon and Patna hospitals contributed around 81% of the gross revenue of PHPL during FY20 (90% in FY19). Further, with gradual improvement in scale of operation of newly commissioned hospital, PHPL's dependency on its Gurgaon and Patna hospitals are expected to reduce.

Experienced team of doctors supported by well-equipped medical equipment: PHPL has an experienced team of around 2,500 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 14 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 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 specialities. 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 total operating income: After registering the growth of around 9% in total operating income (TOI) during FY19, TOI of PHPL grew further by 15% on y-o-y basis and stood at Rs.589 crore during FY20 as against Rs.513 crore during FY19. The growth in TOI was supported by increasing revenue contribution from its recently commissioned two multi-speciality hospitals at Panchkula and Udaipur. During FY20, revenue from in-patient segment grew by 18% backed by higher number of patients treated during the year and revenue from out-patient segment grew by 19% backed by higher number of out-patients coupled with increase in the revenue per out-patient treated. Further, income from medical services contributed nearly 70% to PHPL's TOI and balance was contributed from pharmacy services.

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. Furthermore, significant increase in allocation towards government program under Ayushman Bharat - Pradhan Mantri Jan Arogya Yojana (PMJAY) to Rs.6,400 crore from Rs.2,400 crore in previous year under the Interim Union Budget 2019-20 should augur growth of the healthcare sector.

Liquidity: Adequate
Hospital business requires low working capital which is also reflected in PHPL's negative working capital cycle, as sizeable revenue is on cash payment basis or on a fixed credit from insurance providers (TPA agents). PHPL's liquidity remained healthy marked by cash and liquid investment of Rs.158 crore as on March 31, 2020 (largely pertaining to funds received from PE, pending its deployment in capex/acquisition) along with healthy current ratio of 1.54x. Further, as on September 30, 2020, the company's liquid investment in form of fixed deposits stood at Rs.164 crore. Further, PHPL had adequate gross cash accruals of Rs.28 crore and cash flow from operation of Rs.77 crore during FY20. Furthermore, the working capital utilization of PHPL remained moderate at 59% during last twelve month ended September 2020 which also provides cushion to its liquidity to a certain extent in the near term. Moreover, PHPL has not applied for any moratorium on repayment of instalments and interest due on its term debt and working capital limits for the period March-August 2020 which also indicates its adequate liquidity.

Key Rating Weaknesses
Decline in profitability and cash accruals during FY20: PHPL has over the last three years taken over the management of two existing hospitals and established another green-field hospital, thereby adding significantly to its overall bed capacity, albeit at diverse locations. This rapid expansion has led to a significant proportion of nascent stage hospitals in its portfolio, constraining its overall margins due to gestation losses associated with new hospitals. The PBILDT margin of the company declined sharply to 6.63% (*adjusted for the impact of Ind-AS 116*) during FY20 as compared to 13.57% during FY19 on account of higher operational cost pertaining to its newly commissioned 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 reported net loss of Rs.0.81 crore during FY20 as against net profit of Rs.30.04 crore during FY19. Due to lower profitability, Gross Cash Accruals (GCA) of the company reported de-growth of 40% on y-o-y basis and stood at Rs.28 crore during FY20 as against Rs.46 crore during FY19. PHPL expects the gradual improvement in operational and financial performance of its Panchkula hospital which shall contributes the overall profitability of the company going forward. The Panchkula hospital has already achieved the break-even in 8MFY21 and it is expected that it shall report operating profits in balance months of FY21.

Aggressive debt funded acquisition plan higher than earlier envisaged: PHPL is at advance stage of discussion with Metro group to acquire its Metro Hospital at Faridabad (with 400 beds capacity) and dropped its earlier plan of acquisition of QRG Medicare Limited (300 beds capacity) and QRG Central Hospital & Research Centre Limited (125 beds capacity) together referred as QRG group. PHPL proposes to acquire Metro Hospital, Faridabad by acquisition of entire equity stake for a purchase consideration of Rs.544 crore. Out of total consideration, Rs.304 crore to be paid upfront (towards 60% equity stake) and balance Rs.240 crore through two equal tranches in FY24 and FY25 towards balance 40% equity stake. As per the present plans, the upfront payment of Rs.304 crore is expected to be funded through a term loan of Rs.190 crore and the balance from available liquid investments. The phase wise payments in FY24 and FY25 are expected to be met through a mix of debt and internal accruals. Moreover, subsequent to the acquisition of majority stake in Metro Hospital at Faridabad, the management of PHPL is planning to undertake capex of Rs.50 crore towards a setting-up of a cancer centre and replacement of certain existing medical equipments to be funded entirely through debt. Further, though the proposed cost of acquisition of Metro Hospital is relatively higher than earlier envisaged cost for QRG group, the profitable operation of Metro Hospital provides some comfort. As per the FY20 (Provisional) results, Metro Hospital had a total operating income of Rs.205 crore with PBILDT of Rs.44 crore (~PBILDT margin of 21%).

Expectation of moderation in financial profile of PHPL in FY21 due to adverse impact of Covid-19: Hospital earns a significant amount of its revenue from two segments i.e. Inpatient Department (IPD) and Outpatient Department (OPD). With the outbreak of Covid-19; the number of patients in OPD has gone down significantly owing to the nationwide lockdown. The OPD volumes have also been adversely impacted due 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. Hence, in the initial phase of lockdown, the hospitals witnessed low occupancy rate resulting into lower revenue. On the other hand, the hospitals operates with high fixed cost (~50% to 60% of its cost are fixed in nature) which primarily includes doctor’s remuneration and salaries for allied healthcare workers including nursing staff. Another significant cost that the companies incur is the rental expense. Due to aforesaid challenges, the operational and financial performance of the hospitals affected adversely for Q1FY21 primarily due to low occupancy level. Nonetheless, hospitals witnessed a gradual uptick in the occupancy levels from Q2FY21 onwards. As medical treatments cannot be deferred for long, occupancy levels will witness a rise gradually over a period of next couple of quarters. 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 during Q1FY21 due to Covid-19 pandemic. However, the company has witnessed improvement in its financial performance from September 2020 onwards. Based on I-GAAP accounting, during 8MFY21 (Provisional), PHPL earned a revenue of Rs.364.30 crore with operating profit of Rs.6.46 crore as compared to revenue of Rs.390.26 crore with operating profit of Rs.31.21 crore during 8MFY20.

Leveraged capital structure and weak debt coverage indicators: During FY17, the company 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, the company had reported CCPSs as shareholder’s fund. However, post adoption of IND-AS, the company 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 the company. The gain on fair valuation of this equity capital has been reported under other income in profit & loss statement.
The total debt stood at Rs.345 crore as on March 31, 2020 (*excluding lease liability*), includes term loan of Rs.87 crore, working capital borrowing of Rs.37 crore and Rs.221 crore of financial liability, as a component of equity share held by the PE firm. Further, the company also has cash and liquid investment of Rs.158 crore as on March 31, 2020, after netting off the same, net debt of the company stood at Rs.187 crore as on March 31, 2020. Capital structure of the company continued to remained leveraged marked by an overall gearing of 3.07 times (without lease liability) and TOL/TNW of 4.00 times (without lease liability) as on March 31, 2020 as against 2.84 times and 3.56 times respectively

as on March 31, 2019. Moreover, the leverage of the company is expected to remain elevated in medium term due to ongoing/ proposed debt funded expansion plans. 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 company deteriorated in 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 [PHRPL; rated CARE BBB+(CE); Stable], 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. The cost of the project is expected to remain at around Rs.74 crore which is being funded through term loan of Rs.42 crore and the remaining through internal accrual and available liquid funds. The said term loan is already sanctioned and has a long tenor i.e. 9 year and 9 months. As on June 30, 2020, the company has incurred cost of ~ Rs.17 crore towards the aforesaid project which was entirely funded through internal accruals. Further, the remaining capex will be incurred over a period of next two years i.e. FY21 and FY22. Timely completion of its various on-going projects/acquisitions 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.

Analytical Approach: Consolidated; including PHPL and its wholly owned subsidiary i.e. Paras Healthcare (Ranchi) Pvt. Ltd. [PHRPL; rated: CARE BBB+ (CE); Stable].

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
Financial Ratios- Non Financial Sector
Liquidity Analysis – 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. As on September 30, 2020, PHPL had total 968 operational 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 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, 2020, Commelina Ltd. held 24.68% equity stake in PHPL.

Brief Consolidated Financial of PHPL

Brief Financials (Rs. Crore)	FY19 (Aud.)	FY20 (Aud.)
	Without Ind-AS 116	With Ind-AS 116
Total operating income	513.04	589.43
PBILDT	69.62	58.41
PAT	30.04	(0.81)
Overall gearing incl. lease liability (times)	-	4.67
Overall gearing excl. lease liability (times)	2.84	3.07
PBIDLT Interest coverage (times)	6.76	2.26

As per provisional financial results (based on I-GAAP accounting), PHPL earned a revenue of Rs.364.30 crore with operating profit Rs.6.46 crore during 8MFY21 as compared to revenue of Rs.390.26 crore with operating profit of Rs.31.21 crore during 8MFY20.

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
Complexity level of various instruments rated for this company: Please refer Annexure-3
Annexure-1: Details of Instruments/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	287.46	CARE BBB+; Stable
Fund-based-Long Term	-	-	-	52.56	CARE BBB+; Stable
Non-fund-based-LT/ST	-	-	-	18.00	CARE BBB+; Stable / CARE A2

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Term Loan-Long Term	LT	287.46	CARE BBB+; Stable	-	1)CARE BBB+; Stable (30-Dec-19)	1)CARE A-; Stable (08-Oct-18)	-
2.	Fund-based-Long Term	LT	52.56	CARE BBB+; Stable	-	1)CARE BBB+; Stable (30-Dec-19)	1)CARE A-; Stable (08-Oct-18)	-
3.	Non-fund-based-LT/ST	LT/ST	18.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (30-Dec-19)	1)CARE A-; Stable / CARE A2+ (08-Oct-18)	-

Annexure – 3 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. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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