Max Healthcare Institute Limited (MHIL)

July 07, 2021

Ratings

Facilities/Instruments	**Amount (Rs. crore)**	**Ratings**	**Rating Action**
Long Term Bank Facilities	369.23 (Reduced from 428.03)	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Revised from CARE A (Single A) and removed from Credit watch with Developing Implications; Stable outlook assigned
Short Term Bank Facilities	0.76	CARE A1+ (A One Plus)	Revised from CARE A1 (A One) and removed from Credit watch with Developing Implications
Total Bank Facilities	**369.99 (Rs. Three Hundred Sixty-Nine Crore and Ninety-Nine Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings for the bank facilities of Max Healthcare Institute Ltd (MHIL) have been removed from 'Credit Watch with Developing Implications' following the conclusion of Qualified Institutional Placement (QIP) in March 2021 leading to a total fund raise of Rs.1,200 crore as CARE has now analyzed the impact of the expected equity infusion on the credit risk profile of MHIL and accordingly revised the ratings.

The revision in ratings assigned to the bank facilities of MHIL takes into account the significant deleveraging of balance sheet achieved through pre-payment of debt out of the proceeds of QIP and healthy cash accruals accruing to MHIL in FY21 (refers to period from April 01 to March 31). The rating revision further takes into account the group's improving operational efficiencies after the change in control post-merger (effective from June 01, 2020) as reflected in its improved occupancy and average revenue per bed (ARPOB) quarter on quarter from Q2FY21 and strong liquidity. The first quarter of FY21 though was marred by the impact of covid-19 related disruptions, nevertheless company reported healthy profitability in full year on account of structural cost savings and improved operational parameters. Such uptick in metrics is expected to be sustained over the long run as a result of the cost containment measures adopted by the new management.

The ratings continue to derive strength from its established and leading market position, diversification across various specialties, experienced team of doctors, modern infrastructure, and the strong brand equity of Max Healthcare.

The strengths are partially offset by regulatory and concentration risk along with competition from other established players in the Delhi and NCR region.

Key Rating Sensitivity

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

- Increase in operating income above Rs. 4000 crore while maintaining profitability margins over 20% on a sustained basis.
- Improvement in Total debt/PBILDT below 2x on a sustained basis
- Increase in diversification both in terms of geographical footprint and hospitals network.

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

- Decline in PBILDT margins below 15% on a sustained basis affecting its cash flows.
- Significant expansion by way or organic or inorganic routes such that Total debt/ PBILDT increases above 2.5x

Key Rating Strengths

Resourceful promoter group and experienced management team

With the conclusion of the merger on June 01, 2020; the erstwhile MHIL promoters have been reclassified as public shareholders, and Mr. Abhay Soi and KKR (through Kayak Investments Holding Pte. Ltd) have now become the promoters of MHIL and together they hold 70 % as on March 31, 2021.

Mr. Abhay Soi is the Promoter, Chairman and Managing Director of MHIL. Before the acquisition and merger with MHIL, Mr. Soi was the Promoter, Chairman and Managing Director of Radiant Life Care Private Limited (RLCPL). Mr. Soi forayed into healthcare space in 2010 and is credited for successfully revamping RLCPL healthcare facilities i.e. Dr BL Kapur Memorial hospital, Delhi (BLK) & Dr Balabhai Nanavati hospital, Mumbai (Nanavati). Both of these hospitals have now come under the

MHIL umbrella post-merger. He has experience in financial restructuring business and exposure of various industries like mining, financial services, textiles, and specialty chemicals etc.
KKR & Co. Inc. (formerly known as Kohlberg Kravis Roberts & Co. and KKR & Co. L.P.) is an American global investment company that manages multiple alternative asset classes, including , energy, infrastructure, real estate, credit, and, through its strategic partners- KKR through Kayak Investments Holding Pte. Ltd holds 48.64% shareholding in MHIL as on Mar 31, 2021. KKR has invested around Rs.2,000 crore in erstwhile Radiant for the acquisition of MHIL. CARE is also given to understand that should KKR wish to exit the investment in MHIL, there is no obligation on MHIL' promoters or the company to buy-back the stake, nor has any fixed return on funds invested been assured.

Healthy operational parameters and long-term structural cost-savings boosting profitability margins
With its hospital portfolio having matured over the past few years, the group has demonstrated improvement in its operational parameters as indicated by occupancy rate, average revenue per occupied bed (ARPOB), average length of stay (ALOS), inpatient-outpatient registrations, etc. Presence in premium markets (namely Delhi NCR and Mumbai) along with superior case mix leads to a higher ARPOB for MHIL when compared with its industry peers. The operational performance has marginally deteriorated in FY21 on account of impact of covid-19 specifically in Q1FY21 with nation-wide lockdown, complete lack of medical tourism and lower revenues from elective surgeries. Post Q1FY21, operating metrics too has improved QoQ. MHIL's focus on cost-saving initiatives and long-term structural cost savings programme helped it to achieve operational efficiency and stable earnings.
For MHIL consolidated (excluding 3 trusts), the ARPOBs have reduced from Rs.50,759 in FY20 (post-merger basis) to Rs.49,850 in FY21 accompanies by drop in occupancies from 71% to 65% during the same period.
For MHC network (MHIL consolidated plus 3 trusts), the occupancies and ARPOBs dipped marginally to 65% (PY: 72% post-merger basis) and Rs.50,771 (PY: Rs.51,112 post-merger basis) respectively, during FY21.
On a quarterly basis, while ARPOB dropped to below of Rs.47,200 in first half of the year, the same was subsequently restored to Rs.56,900 in Q4FY21. MHIL reported an improvement in its PBILDT margin by 150 bps (which stood at 18.9% for FY21 as compared to 17.44% in FY20 on post-merger basis) on account of cost saving initiatives.
On a quarterly basis, the company managed to report PBILDT margins in the range of 24% in Q3 FY 21 and Q4 FY 21.
MHIL is further expected to generate higher ARPOBs on account of the market share it has in north India in complex treatments like bone marrow transplant (BTM), Oncology etc. The improvement in profitability margins is expected to be sustained in the long term with gradual restoration in medical tourism, management's focus on optimization of higher ARPOB generating payor mix and cluster approach to maintain its brand in the metros. In Q1FY22 as well, the performance is expected to remain healthy on the back of high occupancies across the hospitals during second wave of covid-19.

Improvement in the financial risk profile on the back of pre-payment of high cost debt
MHIL's financial profile has improved in FY21 following the substantial debt pre-payments in FY21 which has led to deleveraging its balance sheet. The debt has been paid partly from the QIP funds and partly from the cash accruals of MHIL. The liabilities that were retired majorly included the high-cost shareholders loan of Rs.440 crore as well as stake purchase liabilities carrying put option amounting to ~Rs.480 crore in Saket City Hospitals Ltd and ~Rs.80 crore in Crosslay Remedies Ltd (both are subsidiaries of MHIL). The repayments of the high-cost shareholders' loan along with prepayments of other debts will result in significant interest saving going ahead. Interest coverage indicators stood at 2.72x for FY21 and they are expected to improve to the range of 6.4x going forward.
The capital structure further stood improved with pre-payment of scheduled debt obligations for FY22 barring an amount of Rs.6 cr for the entire year. The debt coverage indicators of the company also remained comfortable. The gross debt to PBILDT improved to 2.73x as on March 31, 2021 from 4.29x as on March 31, 2020 (on pre-merger basis) on account of the reduced debt outstanding and healthy cash accruals and is expected to remain below 2.5x going ahead.
However, any debt-funded capex or inorganic growth through acquisitions etc and its impact on the debt profile will be a key monitorable going forward. However, as per clear articulation from the management, pursuant to any organic or inorganic growth initiatives the debt to PBILDT ratio on consolidated basis is not expected to exceed 2.5x.

Established and leading market position driven by strong brand equity
MHIL started its operations in 2001 and has established itself as a leading market player in the Northern India region. After the completion of the merger, MHIL operates 16 facilities in India (including three trusts where it has medical service agreement), offering services in over 32 medical disciplines. Out of the total network, eight hospitals and four medical centers are located in Delhi and the NCR, and the others are located in the cities of Mumbai, Mohali, Bathinda, and Dehradun. The average occupancy has been around 70% over the last couple of years driven by strong brand equity and MHIL's acceptability among the patients.
All the hospitals are National Accreditation Board for Hospitals & Healthcare Providers (NABH) and ISO accredited and have also received Joint Commission International (JCI) accreditation for two of its hospitals which will help MHIL expand its international business further.

Experienced team of doctors

The operations of the company are well supported by a team of experienced doctors, nurses, and paramedic staff. The doctors on board are well qualified and have relevant experience. The group (including 3 trusts) has around 2200+ doctors, 5300+ nurses, and 1000+ consultant physicians on board to service its patients as on June 30, 2020.

Diversification across various specialties and improving channel mix

MHIL derives its revenues from several specialties including cardiology, oncology, neurology, orthopedic, etc., thus not depending upon any single specialty. Among the various specialties, oncology, cardiac, neurology has demonstrated healthy growth during the last year.

The MHIL also has a well-diversified channel mix which includes cash, TPA & corporates, institutions, referrals, and international business. MHIL derived 23.2% (PY: 22.1% on post-merger basis) of its total FY21 revenue from the Institutional/PSU segment which is a low margin business while international segment was at all-time low of 3.9% (PY: 11.1% on post-merger basis) due to covid related travel restrictions. The company plans to optimize its payor mix by reducing the contribution from PSU segment and focus more on international business going forward.

Liquidity: Strong

MHIL's liquidity profile is strong, marked by free cash and cash equivalents of Rs.528 crore as on April 31, 2021. MHIL's residual debt repayments in FY22 and FY23 are low at Rs.6 crore (post pre-payments in April-21) and Rs.31.52 crore respectively. While the company has planned brownfield expansions other than routine capex in the near-to-medium term, it is projected to generate sufficient cash accruals, providing adequate headroom for the additional debt being raised. However, any significant debt-funded inorganic expansion which impacts the debt protection metrics will remain a key rating monitorable.

Key Rating Weakness

Exposed to regulatory and concentration risk

MHIL operates in a regulated industry that has witnessed continuous regulatory intervention during the past couple of years. Regulations such as capping of stent prices and knee implants and stricter compliance norms have adversely impacted the margin of the company in past. Any such future regulation might have an adverse impact on the group's profitability and thus would remain an important monitorable.

Further, the group's concentration in metros like Delhi NCR and Mumbai is also a significant credit risk which makes it vulnerable to any adverse political, regulatory or environmental event which impacts the socio-economic situation of particular geography.

Intense competition from other established players

Given the new wave of opportunities created by covid-19 pandemic, rising self-awareness among masses and increasing insurance penetration, there is high competition in the healthcare sector. However, comfort is drawn from the sizeable presence and established position of Max Hospitals. Going forward, MHIL's prospects would depend upon its ability to improve its profitability, continued scale-up of operations, and to manage the competitive pressures in the sector by diversifying into other geographies or build up on its asset light adjacencies such as 'Max Labs'.

Industry outlook:

The healthcare industry being considered the most essential service continued even during the lockdown period where many other services were shut. While treatment of non-Covid patients (primarily non-emergency treatments) were instructed by the government to be kept on hold, treatment of Covid patients was prioritised after the outbreak of pandemic in India. Also, some hospitals had suspended outpatient departments (OPD) to ensure safety of the healthcare workers and to avoid the spread of infection in healthcare premises. Also, imposition of lockdown restrictions by the government in the end of March 2020 further constrained the mobility of patients. The above-mentioned factors, in turn, reduced the number of non-Covid patients visiting hospitals and clinics. Nevertheless, with easing of lockdown restrictions, the situation of hospital & healthcare industry improved sequentially in the September 2020 quarter and the December 2020 quarter. The industry is estimated to return to normal levels by end of Q1FY22 backed by expected improvement in occupancy rates, footfalls and ongoing vaccination program. Also, increase in momentum of non-Covid treatments and elective surgeries which tend to provide better ARPOBs on an average compared to the ARPOBs from Covid patients will support the industry growth in FY22. 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. Moreover, international patients are also allowed to travel to India for medical treatments (though with certain conditions) and this will benefit healthcare units that have a fair share of international patients. Thus, the hospital and healthcare industry is expected to grow by about 10%-12% during FY22.

Analytical approach: For analysing MHIL Consolidated financials have been considered and the support to be extended to 2 trusts operating under MHC network for which MHIL has issued unconditional & irrevocable corporate guarantee has also been factored in.

The entities being consolidated in MHIL are as follows:

Name of Entity	% Ownership	Relation with MHIL
Max Healthcare Institute Limited	-	-
Alps Hospital Limited (ALPS)	100%	Subsidiary
Crosslay Remedies Limited	98.16%	Subsidiary
Hometrail Buildtech Private Limited	100%	Subsidiary
Saket City Hospitals Private Limited	100%	Subsidiary
Radiant Life Care Mumbai Pvt Ltd	99.99%	subsidiary
Dr BL Kapur Memorial Hospital*	Trust	Operation & Management Agreement
Dr Balabhai Nanavati Hospital*	Trust	Operation & Management Agreement

* MHIL (earlier Radiant) has O& M agreement BLK and Nanavati wherein MHIL will operate, manage and provide medical services. As per Ind-AS the financials of BLK and Nanavati are consolidated due to presence of control.

Applicable Criteria

Criteria on assigning outlook and credit watch to ratings
Criteria on consolidation
CARE's policy on default recognition
Financial ratios- Non-Financial sector
Liquidity Analysis of Non-Finance sector companies
Criteria for short-term instruments
Rating methodology-Hospital Industry
Notching by factoring linkages in ratings

About the Company

Max Healthcare Institute Limited (MHIL) was incorporated in 2001 and operates/ provides medical services to 16 facilities under its umbrella with around 3,400 bed capacity as of March-2021. Out of the total portfolio, 13 hospitals comprising 2,299 beds fall under MHIL (consolidated) profile while 3 hospitals comprising 972 beds are part of 3 trusts. In totality, the number of operational beds for Max healthcare network (including 3 trusts) stood at 3,210 beds for FY21. Out of the total network, eight hospitals and four medical centres are located in Delhi and the NCR, and the others are located in Mumbai, Mohali, Bathinda, and Dehradun. Through a composite scheme of merger, Radiant Life Care Private Limited's (RLCPL) health care assets (2 hospitals i.e. Dr BL Kapur Memorial Hospital & Dr Balabhai Nanavati Hospital) have merged in MHIL effective from June 01, 2020. Further, MHIL got listed on August 21, 2020.

Brief Financials (Rs. crore) – MHIL Consolidated	FY20 (A)	FY21 (A)
Total income	1948.27	2581.21
PBILDT	353.11	488.78
PAT	95.34	-137.55
Overall gearing (times)	0.90	0.44
Interest coverage (times)	2.31	2.72

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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
Fund-based - LT-Term Loan	-	-	November-31	274.23	CARE AA-; Stable
Fund-based - LT-Working Capital Limits	-	-	-	95.00	CARE AA-; Stable
Non-fund-based - ST-BG/LC	-	-	-	0.76	CARE A1+

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.	Fund-based - LT-Term Loan	LT	274.23	CARE AA-; Stable	-	1)CARE A (CWD) (04-Nov-20)	1)CARE A (CWD) (09-Oct-19)	1)CARE A (CWD) (03-Jan-19) 2)CARE A (CWD) (05-Oct-18)
2.	Fund-based - LT-Working Capital Limits	LT	95.00	CARE AA-; Stable	-	1)CARE A (CWD) (04-Nov-20)	1)CARE A (CWD) (09-Oct-19)	1)CARE A (CWD) (03-Jan-19) 2)CARE A (CWD) (05-Oct-18)
3.	Non-fund-based - ST-BG/LC	ST	0.76	CARE A1+	-	1)CARE A1 (CWD) (04-Nov-20)	1)CARE A1 (CWD) (09-Oct-19)	1)CARE A1 (CWD) (03-Jan-19) 2)CARE A1 (CWD) (05-Oct-18)

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - LT-Working Capital Limits	Simple
3.	Non-fund-based - ST-BG/LC	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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