Gujarmal Modi Hospital and Research Centre for Medical Sciences

July 07, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	15.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Total Facilities	15.00 (Rs. Fifteen Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to bank facilities of Gujarmal Modi Hospital and Research Centre for Medical Sciences (GMHRCMS) continues to draws comfort from medical service agreement with Saket City Hospital Pvt Limited (SCHPL), a 100% subsidiary of Max Healthcare Institute Ltd (MHIL, rated CARE AA-; Stable/ A1+). Furthermore, the rating continues to derive strength from the experienced and resourceful management, team of doctors, significant funding support from MHIL and strong brand equity of Max Healthcare. The ratings also take into cognizance consistent improvement in operational performance, though the scale of operations and profitability continues to remain moderate.

The strengths continue to be partially offset by leveraged capital structure of GMHRCMS, competition from other established players in Delhi and NCR region and exposure to regulatory risks.

Rating Sensitivities

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

- Sustained improvement in scale of operations above Rs 400 crore annually and PBILDT margin above 15%
- Sustained improvement in its interest coverage indicators above 2x.

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

- Changes in terms & condition of medical service agreement reducing the support from MHIL in any manner.
- Sustained deterioration in PBILDT margin below 10% affecting its credit profile.

Key Rating Strengths

Experienced and resourceful management

Due to Medical service agreement with SCHPL (Subsidiary of MHIL), GMHRCMS benefits from the expertise of promoter group and management team of MHIL. With the conclusion of the merger, Mr. Abhay Soi and KKR (through Kayak Investments Holding Pte. Ltd) have now become the promoter of MHIL. Mr. Abhay Soi is also Chairman and Managing Director of MHIL.

Before the acquisition and merger with MHIL, Mr. Soi was the Promoter, Chairman, and Managing Director of RLCPL. He had forayed into healthcare space in 2010 and successfully revamped RLCPL healthcare facilities i.e. Dr BL Kapur Memorial hospital, Delhi & Dr Balabhai Nanavati hospital, Mumbai both of these hospitals have now come under the MHIL umbrella post-merger. He has experience in financial restructuring business and exposure of various sectors 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 private equity, energy, infrastructure, real estate, credit, and, through its strategic partners, hedge funds. KKR through Kayak Investments Holding Pte. Ltd holds 48.6% shareholding in MHIL as on March 31, 2021. KKR has invested around Rs.2000 crore in erstwhile Radiant for the acquisition of MHIL.

Financial and operational linkages with MHIL

Max Smart Super Speciality Hospital (MSSSH), Saket is managed by GMHRCMS. MSSSH is a part of Max Healthcare network of hospital therefore benefits from established brand positioning of Max healthcare. It uses the “Max” brand name, benefits from experienced team of doctors associated with MHIL, enjoys various synergies arising out of common finance and operations team, better bargaining power with suppliers and other vendors such as Third-Party Administrators (TPAs) for insurance, operational efficiencies owing to industry best practices being adopted by MHIL and higher occupancy given the high brand value of Max in Delhi NCR.

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 Network operates 16 facilities in India (including three trusts where it has medical

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

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 acceptability of the same among patients.

All the hospitals are 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. Given its established presence, the company is poised to benefit from the buoyant outlook of the domestic healthcare industry.

Consistent improvement in operational performance, albeit adverse impact of covid-19 in FY21

Operational parameters of the hospital as indicated by occupancy rate, inpatient-outpatient registrations, average revenue per occupied bed (ARPOB), etc have consistently improved. During FY17-FY20, occupancy has remained around 70% and ARPOB has increased by CAGR of 14% driven by increase in inpatient registration by 7%. In FY21, the occupancy has marginally dropped to 69% (PY: 70.5%). Further, the ARPOB has declined from Rs.47,968 in FY20 to Rs.41,583 in FY21. The moderation was due to covid-19 related travel restrictions, deferment of elective surgeries and lack of medical tourism.

Driven by moderation in operational metrics, the revenue de-grew by 7.36% with TOI of Rs. 255.58 cr as against Rs.275.88 crore in FY20. However, the drop was significant in Q1FY21, post which there was slow recovery and revenues were almost restored to normal levels by Q3FY21. The international business which is higher revenue generating segment was completely wiped off and stood at 2% of total revenues as against 12% in the previous year. OPD revenues also witnessed substantial drop from 24% in FY20 to 5% in FY21. All these factors contributed to drop in revenues.

Despite, moderated operational performance, PBILDT margin witnessed an improvement from FY20 and stood at 12.24% as against 8.66% in the previous year. This has been possible by way of cost saving measures initiated by the group. The benefit is mainly in form of reduction in employee and doctor costs which have reduced from 53% of TOI in FY20 to 48% of TOI in FY21.

Significant funding support from MHIL which reduces reliance on bank debt

MHIL has in past infused funds in form of unsecured loan to support the operations of GMHRCMS. The society has received security deposits from MHIL, amounting to Rs.214.95 cr as on Mar 31, 2021 (PY: Rs.214.95 cr). These are interest bearing at 11% with flexibility on interest pay-out.

It has unsecured loan which stood stood at Rs.136.95 cr as on Mar 31, 2021 (PY: Rs. 129.95 crore as on March 31, 2020) for working capital requirement. GMRCMS has to pay interest charges on the same to MHIL which get accrued and paid depending on cash availability with the company. The funding support from MHIL helps the company reduce its reliance on bank debt which is of Rs.1.18 crore as on March 31, 2021. But the payments to MIHL in terms of interest charges and medical service fee remains key monitorable.

Key Rating Weakness

Leveraged capital structure

The capital structure of GMHRCMS remains leveraged due to significant outstanding obligation in terms of unsecured loan from MHIL of Rs.136.95 crore as on March 31, 2021 (PY: Rs.129.95 crore) for working capital requirement, refundable performance security deposit from SCHPL of Rs. 214.29 crore payable out of future surplus. GMHRCMS has to pay service fee for medical service agreement, interest on security deposit to SCHPL and interest on unsecured loan to MHIL, which adversely affect the profitability margin, solvency parameters and liquidity buffer available with company. These continued net losses in the past have led to negative net worth. Though these payments are dependent upon availability of cash flows and this remains as a key monitorable.

Exposed to regulatory risk

GMHRCMS operates in a regulated industry which has witnessed continuous regulatory intervention during 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 adverse impact on the GMHRCMS's profitability and thus would remain a key monitorable.

Intense competition from other established players in Delhi and NCR region

The growth in population, increase in lifestyle-related diseases, rising purchasing power of the middle class and higher awareness of chronic illnesses will be the key growth drivers for the sector. Although there is increasing competition in the sector; however, comfort is drawn from the GMHRCMS belonging to Max network of hospitals. Going forward, GMHRCMS'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.

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.

Liquidity analysis: Adequate
GMHRCMS has adequate liquidity supported by free cash and bank balance of Rs.1.32 crore as on March 31, 2021 against nil term loan repayment in FY21 further supported by very minimal utilization of sanctioned working capital facility of Rs. 15 crore.

Analytical approach: Standalone. The ratings however are factoring strong operational and financial linkages with Max Healthcare Institute Ltd.

Applicable Criteria
Criteria on assigning outlook and credit watch to ratingsCARE'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 Trust
Gujarmal Modi Hospital and Research Centre for Medical Science (GMHRCMS) registered under Society Registration Act XXI of 1860, operates a 250 beds hospital in Saket, New Delhi. GMHRCMS has signed a service agreement with Saket City Hospital Pvt Limited (MHIL holds 57.29%) the hospital is run under the Max brand.
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 on September 2020. 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) – Standalone	FY20 (A)	FY21 (A)
Total income	275.89	255.58
PBILDT	23.88	31.28
PAT	-9.85	-6.62
Overall gearing (times)	NM	NM
Interest coverage (times)	0.89	1.00

NM: Not Meaningful
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-Cash Credit	-	-	-	15.00	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 (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-Cash Credit	LT	15.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (04-Nov-20)	1)CARE A (CWD) (09-Oct-19)	1)CARE A (CWD) (03-Jan-19) 2)CARE A (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-Cash Credit	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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