

Wockhardt Hospitals Limited

February 15, 2021

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Short term Bank Facilities	50.00	CARE A4+ (A Four Plus)	Reaffirmed
Total	50.00 (Rs. Fifty crore only)		

Details of facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

The rating reaffirmed to the bank facilities of Wockhardt Hospitals Limited (WHL) continue to derive strength from the experience of the promoters and track record of the company in managing chain of single/multi-specialty hospitals along with improving operating performance during FY20 (refers to the period April 1 to March 31) from a large variety of healthcare services along with favorable locations and continuous support from the promoters/group entities by way of infusion of funds to support operational needs, capex requirements and long-term loan obligations. Furthermore, Wockhardt Limited (flagship company of the group) and WHL, both, share a common name "Wockhardt" and represent the group's presence in the pharmaceutical business.

However, the rating strength is tempered by subdued operational performance, on the back of lower occupancy levels across its several hospitals coupled with stabilization risk associated with recently commissioned hospitals, resulting into continued losses. The rating is further constrained by the capital intensive and competitive nature of healthcare industry along with challenges pertaining to attracting and retaining quality doctors and medical professionals.

Rating Sensitivity:

Positive factors

- 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

- losses at PBILDT level on a sustained basis
- increase on overall gearing over 1.0x

Detailed Rationale & Key Rating Drivers

Key Rating Strengths

Experienced 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, capex as well as repay long term loans (medical equipment loans). 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. As WHL is yet to post cash profits, it is completely dependent on fund infusion by the promoters. Also, owing to long gestation period of major hospitals (South Mumbai and Mira Road), the promoters are expected to infuse funds in near to medium term.

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 in order to create convenience for their patients. They have also entered into a strategic alliance with Partners Medical Association International in Boston, USA. This exclusive association enables access to Harvard's expertise and clinical acumen in the areas of medical innovation and training.

Growth in revenues with operating profits: WHL's TOI has improved during FY20 by 9.86%, from Rs.452.34 crore during FY19 to Rs.496.92 crore during FY20. This was due to an increase in revenue from healthcare services, by 8.69%, from Rs.431.93 crore in FY19 to Rs.469.47 crore in FY20. This increase in income has helped WHL in recording profits at PBILDT level, with PBILDT at Rs.0.65 crore for FY20 vis-à-vis losses of Rs.32.86 crore during FY 19.

Strong presence in Western India albeit stabilisation risk associated with its recently commissioned hospitals: WHL manages a chain of six hospitals under the name of 'Wockhardt Hospitals' located across Western India, i.e. two each in Mumbai & Nagpur & one each in Nasik & Rajkot. The hospitals located at Mumbai (429 beds), Nagpur (177 beds) have been under operation since July 2004 & October 2004 respectively. The other two hospitals are in Nasik (170 beds) & Rajkot (177 beds).

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

Key Rating Weaknesses

Moderate capital structure albeit weak debt coverage ratios: Capital structure continues to be moderate and marginally improved to 0.54x as on March 31, 2020 vis-a-vis 0.62x as on March 31, 2019. Further, the losses continue even in FY 20.

Capital intensive nature of industry: The Hospital industry is a capital-intensive industry with a long gestation period. Generally, the payback period (PBP) for a new hospital is in the range of 5-6 years due to lower occupancy rate in the initial phase of operations. Further, the maintenance capex required for the hospital industry also remains high.

Intensely competitive industry: The healthcare industry is highly competitive with a large number of established organized players and their growing network of hospitals. The competition is expected to intensify with the expected entry of public private partnerships in this segment. However, WHL has empanelled quality doctors and set up state of the art facilities to combat competition.

Dependence on highly reputed doctors & professionals

The promoters have also ensured that renowned medical practitioners are associated 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.

Industry Outlook:

With unlocking of economy and announcement of various unlock guidelines, the patient footfalls are expected to improve as demand from non-Covid patients gathers pace. Also, hospitals and patients are adapting themselves to the Covid-19 environment and social distancing norms. While operations of healthcare industry are estimated to return to normal levels only from Q3FY21 onwards, we might not see operations at pre-Covid level rates in the current quarter for all the players. Nevertheless, the healthcare industry is extending the services of e-consultations and other home care services that will also support their growth. 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. In addition to this, while Covid treatments and testing continues to be a part of business for healthcare industry, getting back to non-Covid business remains the focus point of the industry.

Liquidity: Stretched – Liquidity is marked by cash accruals against negligible repayment obligations and liquid investments to the tune of Rs.14 crore. Of which Rs.11.25 crore are free cash & cash equivalents. WHL had a current ratio of 0.63x as of March 31, 2020

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook and Credit Watch to Credit Ratings

Criteria for Short Term Instruments

CARE's Policy on Default Recognition

Rating Methodology-Hospital Industry

Liquidity Analysis for Non-Financial Sector

Financial Ratios - Non-Financial Sector

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' (WL, rated 'CARE BBB-; Negative/CARE A3') which is engaged in manufacturing and marketing of pharmaceuticals, bio-pharmaceutical formulations, and active pharmaceutical ingredients (APIs) and Vaccines.

As on March 31, 2020, WHL is a subsidiary of Dartmour Holdings Private Limited (DHPL) which holds 57.07% equity stake in the company. Carol Info Services Limited (CISL) holds 31.97%, Merind Limited holds 1.51%, Citigroup Global Markets Mauritius Pvt. Ltd. Holds 3.10% while Mr H F Khorakiwala holds 6.34%. WHL provides single-specialty and multi-specialty tertiary health care services through its managed chain of nine operational hospitals with a total capacity of 953 beds as on September 30, 2020 (1102 beds as on March 31, 2020). 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)

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	452.34	496.92
PBILDT	-32.86	0.65
PAT	-89.70	-66.88
Overall gearing (times)	0.62	0.54
Interest coverage (times)	-0.63	0.01

Status of non-cooperation with previous CRA: Not Applicable**Any Other information:** Not Applicable**Rating History (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
Non-fund-based - ST-Bank Guarantees	-	-	-	50.00	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 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.	Non-fund-based - ST-Bank Guarantees	ST	50.00	CARE A4+	-	1)CARE A4+ (19-Feb-20)	1)CARE A4+ (21-Dec-18)	1)CARE A3 (05-Mar-18) 2)CARE A3 (18-Apr-17)

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Non-fund-based - ST-Bank Guarantees	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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