

MGM Healthcare Private Limited

May 17, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	363.08 (Enhanced from 297.50)	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	30.00	CARE A4 (A Four)	Reaffirmed
Total Bank Facilities	393.08 (Rs. Three Hundred Ninety-Three Crore and Eight Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of MGM Healthcare Private Limited (MHPL) factors in an improvement in the operational performance of the company, as reflected by CAGR of 95% of turnover over the last two years, the company's differentiated strategy focusing on high-end surgeries especially in the transplant segment and the promoters' extensive experience in the healthcare sector.

The ratings are constrained by highly leveraged capital structure, competition from other specialist health care providers and difficulty in retaining qualified medical professionals and growing regulation in the industry.

Rating Sensitivities

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

- Ability of the hospital to break even on its operations
- Reduction in Debt to net worth below 1.5x

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

- Degrowth in total operating income and PBILDT Margin
- Deterioration in the liquidity position

Detailed description of the key rating drivers

Key Rating Weaknesses

Highly leveraged capital structure

The company has incurred significant capex of around Rs. 450.0 crore as on March 31, 2021 towards construction of hospital premises and buying equipment. This was funded by debt to the tune of Rs. 347.50 crore and balance as unsecured loans from the promoter. As on March 31, 2021, the company had negative net worth of Rs. 240.52 crore (accumulated losses since FY 2018). Though the promoters have funded about Rs.209.48 crores, the same is kept as unsecured loans and equity capital remained at Rs. 0.01 crore, which has dented the capital structure. The company has availed GECL Loan of Rs. 65.58 crore as on March 31, 2022.

Presence in the highly competitive Chennai region with a single hospital

MHPL's income depends on a single hospital unit that exposes it to increasing competition in the region. The hospital faces high competition from established multi-speciality hospitals providing tertiary health care services, regional government and private hospitals providing primary care and secondary care services which increases the revenue risk of the company. Dependence on a single unit exposes the hospital to intense competition and revenue vulnerability. However, the promoter group already has a well-established hospital in Pondicherry running for more than two decades. Further the group is also setting up three new hospitals of which one (MGM Oncology Services Ltd) is getting operational by July 2022.

Retention of qualified health care professionals and growing regulation in the industry

The healthcare industry is highly dependent on the availability of qualified and experienced medical professionals. As per World Health organization data 2019, Doctor to Patient ratio in India is 1: 1445 which is very low compared to that of other major countries. The increasing competition and the scarcity of medical specialists, the ability of the hospital to retain its current pool would be a key differentiator. Furthermore, the performance of the hospital sector has been affected due to multiple regulatory interventions; further apart from licensing and approvals, the Government is also constantly regulating the prices of drugs and consumables.

Key Rating Strengths

Increasing scale of operations

Since the commencement of operation in January 2019 the scale of operations has been increasing, total operating income for FY21 is Rs. 213.73 crore as against Rs. 94.13 crores in FY20. Due to higher operating expenses such as employee costs and

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

overheads, higher interest costs MHPL reported loss after tax of Rs.97.12 crore in FY21. Until February 2022, MHPL reported a total operating income of about Rs. 315 crores growth of about 47% over the previous year.

Experienced Promoters

The Chairman and Managing Director of MHPL, Mr M K Rajagopalan has extensive experience in the healthcare and hospital sector. He is the chairman of the Sri Balaji Educational & Charitable Public Trust and Sri Balaji Vidyapeeth trust which runs the Mahatma Gandhi Medical College & Research Centre (MGMCRI) established in 2001 in Pondicherry and Sathya Sai Medical College in Kanchipuram district, Tamil Nadu which was established in 2007. Sri Balaji Vidyapeeth reported total revenue of around Rs. 658 crores with a surplus of Rs. 462 crores in FY21. MGMCRI is equipped with 1280 beds in the college premises and this gives the promoters considerable experience in the hospital sector. As of March 31, 2021, the promoters have given support in the form of unsecured loans of Rs. 210 crores through entities controlled by the promoter.

Focus on high end surgeries, especially in the transplant segment

MHPL was established in Chennai in 2019 as a quaternary care multi-speciality hospital catering to patients in Chennai and surrounding regions. The hospital has around 360 beds, over 200 of which are operational after accounting for beds for ICU care, dialysis etc. The hospital has over 55 outpatient consultant rooms, 12 operation theatres and more than 30 specialities including Cardiology, Orthopaedics, Neuro Surgery, Nephrology, ENT, Paediatrics etc. The hospital has seen good traction in the transplant segment and has performed 15-20 transplants per month for current Fiscal FY22. Due to high-end surgeries, the in-patient revenues are higher, and the hospital has one of the highest average revenue per bed at Rs. 1,48,921/-. Till February 2022, the hospital has earned about Rs. 277.60 crores from in-patient admissions. On the staff strength, the hospital has about 231 well qualified doctors, 455 trained nurses and 730 supporting staffs as on February 2022.

Industry Analysis

The healthcare market expected to increase three-fold to Rs. 8.6 trillion (US\$ 133.44 billion) by 2022. Most hospitals are operating at an average occupancy of ~60-70% with bed capacity being higher than operational beds, which implies decent headroom for growth at existing facilities. Indian government is planning to introduce a credit incentive programme worth Rs. 500 billion (US\$ 6.8 billion) to boost the country's healthcare infrastructure. The healthcare industry is extending the services of e-consultations and other home care services that will also support the revenues. 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

Liquidity: Stretched

The company had a cash balance of Rs. 3.90 crores as on March 31, 2021. The Company has over-draft facility of Rs. 10.00 crore with Indian Bank for funding working capital requirements. About 52% of the payments are received via cash and the remaining is mostly through insurance (both private and govt schemes like Chief Minister's comprehensive health insurance in Tamil Nadu). The repayments for project term loans have commenced since FY 2019 and till December 2021, repayments to the tune of Rs.50 crores have been repaid out of promoter's funds. For FY23 the projected repayments are around Rs.51.45 crore which the company is dependent on promoter's funds to manage the repayments and maintain liquidity.

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](#)

[Hospital](#)

About the Company

MGM Healthcare Private Limited (MHPL) is a Chennai-based private limited company providing advanced healthcare services. MHPL was incorporated in September 2016 by Mr. M K Rajagopalan (Chairman & Managing Director) and Dr. Prashant Rajagopalan (Son of Mr. M K Rajagopalan). The hospital commenced operations from July 14, 2019. As of February 2022, MHPL operates a multi-specialty hospital with 360 beds at Chennai having various departments such as Neurology, Interventional Cardiology, Cardiothoracic & Vascular Surgery, Nephrology, Urology, Gastroenterology, Pediatrics etc., equipped with latest health care facilities.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	11M FY22 (P)
Total operating income	94.13	212.10	315
PBILDT	-58.99	0.73	NA
PAT	-96.44	-97.12	NA
Overall gearing (times)	-3.50	-2.36	NA
Interest coverage (times)	-1.72	0.02	NA

A: Audited; P: Provisional NA: Not Available

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

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
Fund-based-Long Term		-	-	December 2027	363.08	CARE BB-; Stable
Fund-based - ST-Bank Overdraft		-	-	-	10.00	CARE A4
Non-fund-based - ST-Bank Guarantee		-	-	-	20.00	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 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Fund-based-Long Term	LT	363.08	CARE BB-; Stable	1)CARE BB-; Stable (06-Apr-22)	-	1)CARE B+; Stable (31-Mar-21)	1)CARE B+; Stable (05-Mar-20)
2	Fund-based - ST-Bank Overdraft	ST	10.00	CARE A4	1)CARE A4 (06-Apr-22)	-	1)CARE A4 (31-Mar-21)	-
3	Non-fund-based - ST-Bank Guarantee	ST	20.00	CARE A4	1)CARE A4 (06-Apr-22)	-	1)CARE A4 (31-Mar-21)	-

* 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	Fund-based - ST-Bank Overdraft	Simple
2	Fund-based-Long Term	Simple
3	Non-fund-based - 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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