MGM Healthcare Private Limited

March 28, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	392.38 (Enhanced from 363.08)	CARE BB; Stable	Revised from CARE BB-; Stable
Short Term Bank Facilities	60.00 (Enhanced from 30.00)	CARE A4	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in ratings assigned to the bank facilities of MGM Healthcare Private Limited (MHPL) factors in consistent improvement in the operational performance of the company, commencement of operation in cancer institute, 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 rating also factors in continuous financial support from the promoters.

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

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in scale of operations to more than Rs. 500 crores while maintaining healthy PBILDT Margins above 15.00%
- Reduction in debt to net worth below 1.5x

Negative factors

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

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects the rated entity is likely to sustain heathy operational performance over the medium term.

Detailed description of the key rating drivers:

Key Weaknesses

Highly leveraged capital structure

During FY22, the company's total debt was around Rs. 567.04 crore, of which approximately Rs. 221.72 crores was granted as an unsecured loan by directors. As these unsecured loans (about Rs.213.66 crores) are subordinated to bank loans, they have been classified as quasi equity. In addition to the unsecured loans, the company obtained GECL loan of Rs.65.58 crores in FY 2022 and a term loan of Rs.80 crores in FY 2023 for the MGM cancer institute. After adjusting repayments, the current debt outstanding is Rs.392.38 crores, with an overall gearing of more than 8x.

Presence in the highly competitive Chennai region

MHPL faces stiff competition from established multi-specialty hospitals that provide tertiary health care services, as well as regional government and private hospitals that provide primary and secondary care, increasing the company's revenue risk. The hospital's reliance on a single unit exposes it to intense competition and revenue vulnerability. However, the promoter group already has a well-established hospital in Pondicherry that has been in operation for over two decades.

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

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 Strengths

Increase in Scale of operation and Healthy Profitability Margins in FY22

The company achieved significant growth in FY 2022 with TOI increasing by 62% from Rs. 212.40 crores to Rs. 344.60 crores in FY 2022. The PBILDT margins grew to 17.40% in FY 2022 against 0.35% in FY 2021. Since commencement, the company was able to break even only in FY 22 and made a PAT of Rs. 73.62 crores. The interest coverage ratio has improved from 0.02x in FY21 to 1.91x in FY22. For 11 months ended FY 2023, the turnover stood at Rs.315.93 crores.

Commencement of operation of MGM Cancer Institute

MGM Cancer Institute commenced its operations in February 2023. It is 150 bedded hospital and is engaged in providing Surgical oncology, targeted therapy, immunotherapy and Chemotherapy for different kinds of cancer. The total cost of the project is around Rs. 130 crores, of which Rs. 80 crores were funded through debt and rest by promoters.

MGM Heathcare focus on high end surgeries, especially in the transplant segment

MGM Healthcare is 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. On the staff strength, the hospital has about 268 well qualified doctors, 465 trained nurses and 808 supporting staffs as on February 2023.

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. 833 crores with a surplus of Rs. 573 crores in FY22. 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, 2022, the promoters have given support in the form of unsecured loans of Rs. 221.72 crores through entities controlled by the promoter.

Liquidity: Stretched

The cash and bank balance stood at Rs. 11.36 crores as on March 31, 2022. The Company has over-draft facility of Rs. 10.00 crore with Indian Bank for funding working capital requirements. Of the total receipts, about 56% are received in cash and balance is mostly through insurance (both private and govt schemes like Chief Minister's comprehensive health insurance in Tamil Nadu). Since commencement, the promoter's have infused funds as unsecured loans and the promoter would continue the support the entity to manage its debt repayments and maintains sufficient liquidity. The company has repaid term loan of Rs. 53.95 crores for FY23 and projected repayments for FY24 is around Rs. 61.48 crores.

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Hospital

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Healthcare	Healthcare	Healthcare Services	Hospital

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 company has two hospital namely MGM Healthcare (operation commenced in July 2019) and MGM Cancer Institute (operation commenced in Feb2023)

MGM HealthCare is 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. MGM cancer institute (MGMCI) is a 150 bedded facility, start of art facility dedicated to various cancer treatments.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	11M FY23 (Prov.)
Total operating income	212.10	344.60	315.93
PBILDT	0.74	59.98	NA
PAT	-97.12	73.62	NA
Overall gearing (times)	-2.36	8.28*	NA
Interest coverage (times)	0.02	1.91	NA

A: Audited P: Provisional NA: Not Available; *: Adjusted for quasi Equity; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	December 2029	392.38	CARE BB; Stable
Fund-based - ST-Bank Overdraft		-	-	-	20.00	CARE A4
Non-fund-based - ST-Bank Guarantee		-	-	-	40.00	CARE A4

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	392.38	CARE BB; Stable	1)CARE BB-; Stable (17-May-22) 2)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	20.00	CARE A4	1)CARE A4 (17-May-22) 2)CARE A4 (06-Apr-22)	-	1)CARE A4 (31-Mar-21)	-
3	Non-fund-based - ST-Bank Guarantee	ST	40.00	CARE A4	1)CARE A4 (17-May-22) 2)CARE A4 (06-Apr-22)	-	1)CARE A4 (31-Mar-21)	-

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities – Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - ST-Bank Overdraft	Simple
3	Non-fund-based - ST-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings 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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About us:

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