

RHEA Healthcare Private Limited

October 18, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	44.00	CARE BBB+; Positive	Revised from CARE BBB; Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has changed the analytical approach to combining financial and business profile of Rhea Healthcare Private limited (Rhea) and its fellow subsidiary Nova Medical Centres Private Limited (Nova IVF) as Rhea is in advanced stages of merging Nova IVF with itself.

The revision in the rating assigned to the bank facilities of Rhea factors in consistent improvement in scale of operations and profitability of the combined entity aided by addition of new centres, increasing occupancy level and increasing share of matured centres in portfolio. The rating continues to derive strength from the entities being the part of Asian Healthcare Holdings (AHH) which is joint venture (JV) between TPG and the demonstrated support from AHH in the form of regular fund infusions for capex and inorganic expansion. As such, both the entities viz. Rhea and Nova IVF are self sufficient to meet its existing operational expenses, debt repayment obligations and general maintenance capex from its existing cash flows. However, the fund infusion from AHH would be required to fund incremental organic or inorganic capex. Sustained improvement in scale and operating margins has translated into improvement in debt coverage indicators even though return on capital employed (ROCE) continues to remain weak.

These rating strengths of the company are partially offset by leveraged yet improving capital structure. However, CARE Ratings notes that the majority of the debt in the combined entity would be in the form of lease liabilities. Furthermore, the ratings are constrained by the continuing losses at net level along with intense competition and exposure to regulatory risk for woman and children healthcare and IVF business.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustainable improvement in scale of operations by more than ₹1,100 cr with PBDIT margins above 10% while maintaining Total debt/ PBILDT (excluding IND AS 116 impact) below 2x.

Negative factors

- Dilution of ownership of AHH and its stated posture of supporting the units or any delay in need-based infusion of funds by AHH.
- Significant weakening in the operating performance with lower-than-expected profitability translating into Total debt/ PBIDT (excluding IND As 116 impact) of more than 3x.

Analytical approach: Change in analytical approach. Earlier Rhea's analysis was on consolidated basis.

Now, CARE Ratings has taken a combined view on Rhea (consolidated) and its fellow subsidiary Nova IVF (consolidated) while assessing the credit profile, given the common promoters and parent entity along with operational and financial linkages between them. Moreover, AHH is in advanced stages of merging both the entities.

List of subsidiaries of Rhea and Nova IVF are mentioned in Annexure-6.

Outlook: Positive

Positive outlook reflects the expectation of CARE Ratings that the entity will continue to exhibit sustained improvement in scale and profitability aided by consistent addition of beds either by organic or inorganic route and its ability to turnaround the operations in shorter time period with increasing brand presence of 'Motherhood' and 'Nova IVF' in the region it operates. The outlook may be revised to 'Stable' in case of lower-than-expected improvement in the scale or higher increase in debt levels impacting capital structure.

Detailed description of the key rating drivers:

Key strengths

Improvement in scale of operations alongwith improving PBILDT margins

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

Rhea: The scale of operations of the company has improved by more than 44% in FY23 majorly on account of improved volumes in the existing units in both in-patient (i.e. birthing/ non birthing surgeries) revenue and outpatient revenue along with operationalisation of the new units along with the acquired units. With growing scale of operations on account of increase in the number of cases has resulted in better absorption of fixed costs resulting in improvement in the PBILDT margins from negative 10.07% in FY20 to around 14.63% in FY23. CARE Ratings expects the margins are expected to further improve going forward supported with growing scale of operations in the existing units along with stabilisation and improvement in the operations for the new centres. However, turnaround in operations at net level will be key monitorable.

Nova IVF: The income grew by 24% in FY23 by improved volume growth in the IVF business in the existing units as well as the newly-acquired and commissioned units of the company. This has also resulted in improvement in PBILDT margins from 6.53% in FY20 to around 15% in FY23, however is still moderate on account stabilisation of operation in the new units due to the inorganic growth.

On overall basis, while CARE Ratings does not expect significant business synergies between Rhea and Nova IVF but reduced corporate overheads and improving recall of their brands viz. 'Motherhood' and 'Nova IVF' will support the income growth by 10% y-o-y with operating margins of upward of 15%.

Experienced and resourceful promoters with strong management team along with demonstrated support from the AHH: The company was established in 2008 and has track record of operations for more than a decade. During 2016, AHH (backed by PE firm TPG growth) acquired RHEA from its erstwhile promoters. Rhea is headed by Vishal Bali, CEO at AHH, nominee director in TPG and chairman of Rhea, is a qualified postgraduate having 32 years of experience, he has worked for Wockhardt (Fortis Healthcare) for 18 years. The company has more than 500 doctors with supporting staff of 1,150+ employees. On combined basis, AHH has infused around ₹349 crore from FY20 till FY23 in order to fund operations and organic and inorganic expansion plans and losses. While CARE Ratings expects that both the entities are self sufficient to meet its operational expenses, debt repayment obligations and general maintenance capex, however, the fund infusion from AHH would be forthcoming to fund incremental organic or inorganic capex by the company.

Key weaknesses

Improved yet leveraged capital structure and debt coverage: The company's majority of the debt is in the form of lease liabilities. Bank debt, on combined basis as on March 31, 2023, stood at around ₹193.73 cr. The term loans were primarily availed to fund its capex and inorganic growth acquisitions of the company. Furthermore, the company also has a put option liability against the balance 40% stake in the subsidiary, Meskhnet Healthcare Private Limited, in which Rhea holds around 60%. Overall gearing remained leveraged at 4.83x as on March 31, 2023 but has improved significantly from 9.65x as on March 31, 2022 on account of support demonstrated from AHH to fund its losses at net levels as well as improvement in operations. Total debt to PBILDT also improved 4.87x for FY23 from 7.54x for FY22. The adjusted debt to PBILDT (excluding the IND As 116 impact) stood at 2.11x as on March 31, 2023 when compared to 5.90x as on March 31, 2022.

Rhea has plans to continue to invest in organic and inorganic expansion, however, CARE Ratings expects the improvement in capital structure and debt coverage indicators would sustain aided by continuous rise in increasing occupancy levels and number of IVF cycles.

Intense competition and exposure to regulatory risk for woman and children healthcare and IVF business:

Rhea: The medical sector in India is extremely competitive and Rhea faces stiff competition from other dedicated units of the established hospital chains as well as specialized mother and child hospital chains. Furthermore, the industry is highly regulated, with continuous regulatory intervention during the past couple of years. Regulations such as that of restrictive pricing instated by the Central and state governments and stricter compliance norms can have an adverse impact on the margin of the company. Under the group, two hospitals have received accreditation by the National Accreditation Board for Hospitals & Healthcare Providers (NABH).

Nova IVF: The Indian IVF industry is intensely competitive, with NOVA IVF facing competition from both specialised IVF players as well as multi-speciality hospital chains, which offer fertility services. Certain degree of competition is also observed from the local/ fragmented IVF players. Such intense competition may result in moderation in profit margins, although the dominant position of the company with an established track record is expected to support the business prospects of the company.

Liquidity: Adequate

Liquidity of the company is marked by cumulative equity infusion of ₹148.3 Cr in FY23 to fund the operations and to support the inorganic expansion. The combined cash and cash equivalents of the company stood at around ₹120.70 cr as on June 30, 2023. The company has been maintaining Debt Service Reserve Account (DSRA) equivalent to two months of principal and interest payments for term loan as fixed deposit and as per terms of sanction, one month of principal and interest obligation for all term loans to be retained in escrow account at all times and only the balance to be swept out to OD account.

Applicable criteria

- [Policy on default recognition](#)
- [Consolidation](#)
- [Financial Ratios – Non financial Sector](#)
- [Liquidity Analysis of Non-financial sector entities](#)
- [Rating Outlook and Credit Watch](#)
- [Hospital](#)
- [Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

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

Rhea was incorporated in the year 2008 (acquired by AHH in 2016) and is engaged in providing healthcare services for women & child. The company operates its hospitals under the name "Motherhood" with total bed capacity of 650 of which 138 beds are NICU as on March 31, 2023. The specialties of the hospital chain include maternity care, gynaecology, paediatrics, laparoscopic surgery, and fertility among others.

Nova Medical Centres Private Limited (NOVA IVF) was incorporated in 2009 (acquired by AHH in 2019) and operates around 60 IVF centres spread across 44 cities. The company is engaged into business of In vitro fertilization (IVF).

Brief Financials (₹ crore)- Combined	March 31, 2022 (UA)*	March 31, 2023 (UA)*	June 30, 2023 (Prov.)*
Total operating income	709.53	983.03	276.64
PBILDT	82.09	145.41	NA
PAT	-42.10	-31.54	NA
Overall gearing (times)	9.65	4.83	NA
Interest coverage (times)	1.58	2.22	NA

*Financials have been combined by CARE Ratings; UA: Unaudited; NA: Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Nil

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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Bank overdraft	-	-	-	-	25.00	CARE BBB+; Positive
Fund-based - LT-Term loan	-	-	-	August 2029	19.00	CARE BBB+; Positive

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 2023-2024	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
1	Fund-based - LT-Bank overdraft	LT	25.00	CARE BBB+; Positive	-	1)CARE BBB; Stable (18-Aug-22) 2)CARE BBB; Stable (04-Aug-22)	1)CARE BBB; Stable (03-Sep-21)	-
2	Fund-based - LT-Term loan	LT	19.00	CARE BBB+; Positive	-	1)CARE BBB; Stable (18-Aug-22) 2)CARE BBB; Stable (04-Aug-22)	-	-

LT: Long term

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-Bank overdraft	Simple
2	Fund-based - LT-Term loan	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities please [click here](#)

Annexure-6: List of subsidiaries as on March 31, 2023

Holding company	Subsidiary name	Shareholding %
Rhea Healthcare Private Limited	Motherhood Fertility Private Limited	100%
	DSR Healthcare Private Limited	100%
	Meskenet Healthcare Private Limited	60%
	Chaithanya Integrated Healthcare India Private Limited	100%
Nova Medical Centers Private Limited	Nova Medical Centers NCR Region Private Limited	100%
	Nova Pulse IVF Clinic Private Limited	100%
	Nova Pulse IVF Clinic Ahmedabad Private Limited	100%
	Neo Art Repository Private Limited	100%

	Nova Fertility East Private Limited	58.39%
	Nova Pulse IVF Education Trust	100%
	Shashthi True Value Healthcare Services LLP	58.39%
	Fetomat Foundation Care Services LLP	29.20%
	SVAS Med Private Limited	51.31%
	Motherhood Fertility Bangladesh Private Limited	55.31%
	Asia Pacific Advanced Fertility Centre LLP	100%
	Origin International Fertility Centre Private Limited	60%

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.

Contact Us

<p>Media Contact</p> <p>Name: Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact</p> <p>Name: Deepak Prajapati Senior Director CARE Ratings Limited Phone: 079-4026 5656 E-mail: Deepak.prajapati@careedge.in</p>	<p>Analytical Contacts</p> <p>Name: Karthik Raj K Director CARE Ratings Limited Phone: 080-46625555 E-mail: Karthik.raj@careedge.in</p> <p>Name: Himanshu Jain Associate Director CARE Ratings Limited Phone: 080-46625555 E-mail: Himanshu.jain@careedge.in</p> <p>Preeti Narkhede Rating Analyst CARE Ratings Limited E-mail: Preeti.Narkhede@careedge.in</p>
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About us:

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