

Wockhardt Hospitals Limited

October 25, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term / Short Term Bank Facilities	20.00	CARE BB+; Stable / CARE A4+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE has reaffirmed the ratings of '**CARE BB+; Stable/ CARE A4+**' assigned to the non-fund based facility of Wockhardt Hospitals Limited (WHL). The ratings assigned to bank facility of WHL are constrained by modest profitability and continuous losses at PAT level in last several years, weak credit metrics, and competitive nature of industry. However, ratings continue to derive strength from experienced promoters, established brand name, sustainability in revenue growth, strong presence in western India.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in occupancy levels resulting in company reporting profit after tax on sustained basis.
- Improvement in overall gearing below 0.25x on a sustained basis.

Negative factors

- Losses at PBILDT level
- Deterioration in overall gearing above 1.0x

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited believes that the firm would sustain its operational performance with occupancy aided by the experience of the partners in the hospital industry and the established name in the region.

Detailed description of the key rating drivers:

Key weaknesses

Modest profitability and continuance in PAT loss during FY23

During FY23, WHL's profitability continued to remain modest at 5.46%(FY21: 8.83%). The decline in profitability was due to increase in personnel expenses (doctors 'pay-out) and other overhead cost. Employee cost, consultancy, clinical charges, and other overheads account to more than 60% of total revenue for FY23 (FY22: 63% of total revenue). Also, major revenue driven by government scheme services continues to impact the company's profitability. Consequently, the losses at PAT level had widened to Rs.87.43 crore in FY23 (PY: Rs.53.24 crore) owing to decline in absolute PBILDT as well as deferred tax expense.

Weak credit metrics

WHL's credit metrics continues to remain weak with total debt to PBILDT at 8.57x 6.04x in FY23 (FY22: 6.04x). This was on account of decline in PBILDT in FY23. During FY23, the optionally convertible debentures were converted into equity and non-convertible debentures (NCDs). The debt structure of the company comprises of 50% preference shares, 42% Non-Convertible Debentures (NCD) and ~7.5% lease liability as on March 31, 2023.

Empanelled reputed doctors albeit high reliance on scarcely available professionals

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

Highly competitive and capital-intensive nature of industry

Hospital industry is a capital-intensive industry with relatively long gestation period. Generally, new hospital takes around 2-3 years' time frame to breakeven at operational level. Establishment, occupancy rate and financial stability in the initial period of operation takes time. Further, the maintenance capex required for the hospital industry also remains high owing to regular

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

replacement of equipment, non-reusable pharmaceutical and surgical products and to update the latest technology. The industry also faces challenges with respect to hiring on-role and/or off-role doctors, nurses and other staff. Hence dependence on human resources is high and is employed and deployed as per requirement. Moreover, the hospital sector is highly fragmented with few large players in the organized sector and numerous small players in the unorganized sector leading to high level of competition in the business. Thus, differentiating factors like range of services offered, quality of service, pedigree of doctors, success rate in treatment of critical / complex diseases, etc. will be crucial to attract patients and increase occupancy.

Key strengths

Experienced and resourceful 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 and maintenance capex. 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. During FY23 and H1FY24, the promoters have not infused any funds as the company was able to generate healthy cashflow from operations worth Rs.50.69 crore as on March 31, 2023.

Sustainability in revenue growth

Though WHL's occupancy remains moderate in FY23 at 41% (FY22: 45%), the ARPOB increased from Rs.38,356 in FY22 to Rs.39,100 owing to increased admissions for non-covid and surgical as well as oncology treatments. WHL's turnover stood at Rs.579 crore for FY23 (PY: Rs.606.53 crore). During 5MFY23, WHL has reported total revenue of Rs.253 crore.

WHL expects an increase in occupancy level and ARPOB in the coming years as the hospitals at Nagpur and Rajkot are undergoing restructuring from multispecialty to oncology facility centre considering the high demand-supply mismatch for oncology facilities in India.

Established operations as a single/multi-specialty hospital

WHL continues to provide specialized healthcare and surgical solutions to the patients with 24-hours specialists available for the hospital. The facilities provided are technologically advanced to create convenience for their patients such as wireless equipment (first in Asia), vinyl coated OTs to prevent fungal growth and paper less ICU admissions. It has fully equipped state of the art OTs with flat panel digital cath-lab, state-of-the-art ICUs which are seamless vinyl coated to prevent fungal growth and 24x7 central monitored patient beds. They have developed expertise in super specialities such as Cardiology, Cardiothoracic surgery, Orthopaedics, Gastroenterology, Obstetrics & Gynecology, ENT, Ophthalmology, Dentistry, Paediatrics, Urology, General Surgery, Minimal Invasive Surgery, General Medicine, Pulmonology, Critical care and Accident & Emergency. They have also entered a strategic alliance with Partners Medical International in Boston, USA. This exclusive association enables access to Harvard's expertise and clinical acumen in the areas of medical innovation and training.

Liquidity: Stretched

WHL's liquidity profile is marked stretched as the contingent liabilities for FY23 account for more than 50% of the networth. Any invocation of the contingent liabilities may result a stretch in the liquidity profile of the company. Further, since most of the transactions are of cash, the operating cycle has continued to remain less than 5 days over the last 3 years. The hospital maintains inventory of medicines and consumables for a period of 5 days. WHL enjoys a credit period of about 55 days from its suppliers. The cash flow from operating activities was positive at Rs.50.69 crores. The company does not have any fund-based limits and term loan from the lenders as on March 31, 2023. As on October 2023, WHL has unencumbered fixed deposits more than Rs.20 crore.

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](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

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

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' & it is which is engaged in manufacturing and marketing of pharmaceuticals, bio-pharmaceutical formulations, and active pharmaceutical ingredients (APIs) and Vaccines.

WHL provides single-specialty and multi-specialty tertiary health care services through its managed chain of six operational hospitals with a total operational capacity of 953 beds as on March 31, 2023. 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 (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	5MFY24 (UA)
Total operating income	606.53	579.74	253.00
PBILDT	53.58	31.66	17.70
PAT	-53.24	-87.46	NA
Overall gearing (times)	0.78	0.66	NA
Interest coverage (times)	1.16	0.74	NA

A: Audited UA: Unaudited, NA: Not audited; 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
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	20.00	CARE BB+; Stable / 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 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	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	20.00	CARE BB+; Stable / CARE A4+	-	1)CARE BB+; Stable / CARE A4+ (19-Oct-22)	1)CARE BB+; Stable / CARE A4+ (04-Feb-22)	1)CARE A4+ (15-Feb-21)

*Long term/Short 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	Non-fund-based - LT/ 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.

Contact us

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About us:

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