

MGM Healthcare Private Limited

December 01, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	392.38	CARE BB (RWD)	Placed on Rating Watch with Developing Implications
Short Term Bank Facilities	60.00	CARE A4 (RWD)	Placed on Rating Watch with Developing Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings limited has placed the rating outstanding on the bank facilities of MGM Healthcare Private Limited (MHPL) on 'Rating watch with developing implications'. The rating action follows the announcement of Business Transfer Agreement entered between MHPL and Fortis Malar Hospitals Limited (FMHL) to acquire the hospital unit of FMHL located at Adyar along with its business operations, Land and building in which the hospital is located and the adjacent land owned by the group entity of FMHL for a total consideration of Rs 128.00 crores. It is informed that the transaction will be an all-cash deal and is estimated to be consummated by mid of January 2024; subject to certain conditions precedent and closing conditions as stipulated in the definitive agreements including the approvals from shareholders of both Fortis Healthcare and Fortis Malar Hospitals Limited respectively. Further, CARE has also been informed that MHPL plans to construct a 400 bedded Hospital in Alwarpet, Chennai in next two years with an estimated project cost of Rs 400 crores. In light of the recent developments, CARE is in discussion with the company to understand the exact impact of the proposed acquisition and the upcoming hospital project on the credit profile of the company and the business strategy going forward. CARE would continue to monitor the developments in this regard and will consider taking appropriate rating action in due course.

The ratings are continued to constrain by the debt funded expansion on highly leveraged capital structure, competition from other specialist health care providers and difficulty in retaining qualified medical professionals and growing regulation in the industry. The rating derives strength from the company's differentiated strategy focusing on high-end surgeries especially in the transplant segment, consistent increase in scale of operations and the promoters' extensive experience in the healthcare sector.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in scale of operations to more than Rs. 500 crores 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 Margin
- Deterioration in the liquidity position

Analytical approach: Standalone

Detailed description of the key rating drivers:

Key weaknesses

Continuous debt funded expansion on highly leveraged capital structure

During FY23, MHPL had taken term loan of Rs. 80 crores for MGM Cancer Institute taking the total term loan outstanding to nearly Rs 392.28 crores as on March 31, 2023. As on March 31, 2022, promoters has infused total unsecured loan of Rs. 221.72 crores through entities controlled by the promoter, of which Rs 213.66 crores is subordinated to the bank loans availed by the company.

Presence in the highly competitive Chennai region

MHPL 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. Proposed addition of new units expected to improve revenue diversification for the business. The promoter group already has a well- established hospital in Pondicherry running for more than two decades.

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 2020, Doctor to Patient ratio in India is 7.27: 10000 which is very low compared to that of other major

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

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

Consistent Increase in Scale of operation and Healthy PBILDT Margin

The scale of operation have been consistently improving, since commencement of operation in July 2019. During FY23, company had a consolidated its revenue across all departments and TOI for 11MFY23 stood at Rs. 315.93 crores.

MGM Healthcare 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. 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 around Rs. 2-3 crores as on November 28, 2023. The Company has over-draft facility of Rs. 10.00 crore with Indian Bank for funding working capital requirements. Since commencement, the promoters have infused funds as unsecured loans and the promoter are expected to continue to support the entity to manage its debt repayments and maintains sufficient liquidity.

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 hospitals namely MGM Healthcare (operation commenced in July 2019) and MGM Cancer Institute (operation commenced in Feb 2023)

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 (MGMC I) is a 150 bedded facility, state 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; Prov: Provisional; NA: Not Available; 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 (RWD)
Fund-based - ST-Bank Overdraft		-	-	-	20.00	CARE A4 (RWD)
Non-fund-based - ST-Bank Guarantee		-	-	-	40.00	CARE A4 (RWD)

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-Term Loan	LT*	392.38	CARE BB (RWD)	-	1)CARE BB; Stable (28-Mar-23) 2)CARE BB-; Stable	-	1)CARE B+; Stable (31-Mar-21)

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
						(17-May-22) 3)CARE BB-; Stable (06-Apr-22)		
2	Fund-based - ST-Bank Overdraft	ST**	20.00	CARE A4 (RWD)	-	1)CARE A4 (28-Mar-23) 2)CARE A4 (17-May-22) 3)CARE A4 (06-Apr-22)	-	1)CARE A4 (31-Mar-21)
3	Non-fund-based - ST-Bank Guarantee	ST**	40.00	CARE A4 (RWD)	-	1)CARE A4 (28-Mar-23) 2)CARE A4 (17-May-22) 3)CARE A4 (06-Apr-22)	-	1)CARE A4 (31-Mar-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	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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