Alexis Multi Speciality Hospital Private Limited

October 22, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / short-term bank facilities	25.00	CARE AA-; Stable / CARE A1+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has assigned ratings at 'CARE AA-; Stable/CARE A1+' for bank facilities of Alexis Multi Speciality Hospital Private Limited (Alexis). Ratings derive strength from the entity being the wholly owned subsidiary of Max Healthcare Institute Limited (MHIL; rated 'CARE AA+ Stable/ CARE A1+') sharing strong operational, managerial, and financial linkages in form of common brand name and loans & advances from MHIL. Alexis holds strategic importance for the group owing to its location in Nagpur to expand group's footprint and reduce concentration in Delhi NCR. Ratings also take comfort from the steady ramp-up of operations in H1FY25 (refers to period April 01 to June 30) with average revenue per occupied bed (ARPOB) of ₹45,300 and occupancy level of 59%. Ratings further derive comfort from comfortable capital structure owing to negligible term debt except of unsecured loans from MHIL. CARE Ratings expects the operating efficiencies of Alexis to improve significantly in near to medium term in line with increasing surgical business as demonstrated in other hospitals of the group.

Ratings also draw strength from MHIL's strong operational and financial risk profiles on the back of sustained improvement in operational performance with healthy ARPOB growth, steady occupancy levels sustaining above 74% resulting into healthy revenue and operating margin in FY24 (refers to period April 01 to March 31) and Q1FY25 (refers to period April 01 to June 30) with sustenance in strong capital structure and healthy debt coverage metrics. Ratings also continue to derive strength from MHIL's established position in the healthcare sector across key market region, including Delhi-NCR, Mumbai, and Lucknow among others, diversification across specialities, experienced team of doctors, and the significant brand equity of 'Max Healthcare'.

However, these rating strengths are partially offset by the exposure towards the regulated nature of healthcare industry and competition intensity in the region in which it operates.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Ability of the company to improve operational performance (ARPOB and occupancy) leading to growth in topline profitability margins beyond ₹300 crore and 25% on a sustained basis.
- Improvement in credit profile of parent – MHIL.

Negative factors

- Deterioration in credit profile of MHIL.
- Any higher-than-envisaged debt moderating the financial risk profile of the company.

Analytical approach: Standalone. Ratings factor in the strong financial, operational, and management linkages with the parent entity, MHIL.

Outlook: Stable

'Stable' outlook reflects CARE Rating's expectation that Alexis's operational performance will continue to improve with increasing proportion of surgical revenue, which shall lead to improvement in its operating profitability and also financial risk profile.

Detailed description of key rating drivers:

Key strengths

Strategic importance and strong operational and financial linkages with MHIL

The acquisition of Alexis is strategically important for MHIL as it meant a wider footprint of MHIL in the western region of India and specifically in Maharashtra. The hospital operated under Alexis has a bed capacity of 200 (174 operational beds), representing 4.78% of MHC network's bed capacity as on June 30, 2024. Alexis will be integrated like other hospitals in the network over a due course. In Q1FY25, Alexis has an occupancy rate of 59% though with a low ARPOB of ₹45,300 when compared to other hospitals in Max Network. The ARPOB is expected to improve as Max would focus on strengthening the surgical programmes in the Nagpur Hospital. Traction can already be noticed with H1FY25 revenue of ₹98.80 crore and earnings before interest, taxation, depreciation, and amortisation (EBITDA) of ₹24.10 crore; recording PBILDT margin of 24.39%. CARE Ratings expects MHIL to continue to provide need-based financials and other support as required by Alexis from time to time.

Established and leading market position of MHIL driven by strong brand equity

MHIL, including its subsidiaries and societies, commands a leading market position particularly in north India, operating 20 hospitals and medical centres (PY: 17) as on March 31, 2024. Of this, 13 facilities (hospitals and medical centres) were in Delhi & NCR and the others in Mohali, Punjab (2), Bathinda, Punjab (1), Dehradun, Uttarakhand (1), Lucknow, UP (1), Nagpur (1), and Mumbai (1). Delhi contributes more than 60% of the group's revenue. Alexis plays pivotal role, as it is in Nagpur, enabling the

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

group to diversify geographically. The association with Max as a brand will help the company to command higher ARPOB and increased footfalls, which shall lead to better occupancy levels, driving the revenue and margin growth forward.

Comfortable financial risk profile marked with support from MHIL

Alexis has a comfortable capital structure, denoted by an overall gearing of 0.01x owing to negligible long-term debt against net worth base of ₹127.89 crore as on March 31, 2024. In current year, MHIL has extended support in form of unsecured loans to the tune of ₹25 crore to Alexis, which stood at ₹16.18 crore as on September 30, 2024. CARE Ratings observes, the company does not have significant capex plans in the next two to three fiscals, and hence, the capital structure is expected to improve further in the near to medium term with improving operational efficiencies.

In FY24, the company posted revenue of ₹152.68 crore with a moderated PBILDT margin of 9.39% as the company had low surgical programmes. Post-acquisition by MHIL in February 2024, the parent is focussing on increasing the surgical programmes in the hospital which will improve the operating efficiency of the hospital. In H1FY25, the company has recorded revenue of ₹98.80 crore and EBITDA of ₹24.10 crore, recording PBILDT margin of 24.39%.

Key weaknesses

Exposure to regulatory risk

MHIL and network entities operate in a regulated industry that witnessed continuous regulatory intervention in the past couple of years. Regulations such as capping stent prices and knee implants and stricter compliance norms have adversely impacted the company's margin in the past. Such future regulations may have an adverse impact on the group's profitability, and will remain an important monitorable. MHIL believes in the cluster approach and has a significant number of beds in metros, as these metros witness a significant footfall of medical tourist, inherent advantages available in metros such as high per capita income, high insurance penetration and propensity to pay for high-end quaternary care facilities, availability of senior and statured clinical talent, leading to metros becoming regional hubs and higher health awareness. MHIL network has a higher proportion of beds in metro cities compared to other top players, which has helped clock higher ARPOBs than its peers. The Supreme Court's directive from February 2024 for fixation of standardised prices for hospitals, is not likely to have sustained adverse impact on MHIL's operations, though it remains a key monitorable in case any action is taken.

The group's concentration in metros such as Delhi-NCR and Mumbai is also a significant credit risk, making it vulnerable to adverse political, regulatory, or environmental event, which impacts the socio-economic situation of a particular geography. However, the company has made recent efforts to expand its geographical presence in other states as well. In this regard, MHIL has acquired Starlit and Alexis in Lucknow and Nagpur with 550 and 200 beds, respectively. Alexis operates a single hospital in Nagpur, and therefore, cash flows of the entity remain exposed to adverse events or challenges related to that location, which may have an impact on the company's overall financial position.

Intense competition from other established players

With rising preference towards brands, higher quality and organised diagnostics and self-awareness among masses with increasing insurance penetration, there is a high competition in the healthcare sector from other established brands such as Fortis, Apollo, and Medanta among others. However, comfort is drawn from the sizeable presence of Max as a brand and footprint with established position of its hospitals. Going forward, MHIL and its network entities' prospects will depend upon its ability to improve its profitability, continued scale-up of operations, ramp-up of new and acquired units and to manage the competitive pressures in the sector by further diversifying into other geographies or expand through asset-light adjacencies such as 'Max Labs', and Muthoot Dwarka among others.

Liquidity: Adequate

The adequate liquidity is characterised by projected gross cash accruals (GCA) of ₹30-35 crore in FY25 against negligible debt repayment obligations of ₹0.41 crore. Additionally, the company has free cash and bank balance of ₹14.47 crore as on June 30, 2024. The company does not have major term loan except for unsecured loan of ₹16.18 crore from parent (MHIL) as on September 30, 2024.

Liquidity profile of Alexis is supported with MHIL's strong liquidity position given its healthy GCA of ₹1,339 crore in FY24 and expected to be over ₹1,800 crore over medium term against moderate debt repayment obligations (incl. lease liabilities) of ₹50 crore in FY24, ₹215 crore in FY25, and ₹419 crore in FY26 (incl. estimated repayment of JHL debt). The cash accruals generated by PHFs is close to ₹320 crore in FY24 against which the debt repayments are nominal around ₹3 crore to ₹5 crore yearly. Debt repaid at consolidated level for MHIL in Q1FY25 is close to ₹19.78 crore. The liquidity is further aided by free cash and cash equivalents of ₹1,157 crore as on June 30, 2024 in MHIL consol and ₹1,346 crore in MHC network (including all PHF's) with sanctioned WC limit of ₹345.63 crore against which utilisation is nominal of ₹103.74 crore, thus leaving sufficient buffer for exigencies. The cash accruals of the MHC network in coming years will be partially applied towards the capex commitments over next three years through FY27 involving total outlay of close to ₹6,000 crore (including PHFs, potential capex on JHL, and maintenance capex) for further addition of 2,400 beds over two to three years through brownfield expansion.

Applicable criteria

Definition of Default
Factoring Linkages Parent Sub JV Group
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Hospital
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Healthcare	Healthcare	Healthcare Services	Hospital

Alexis owns and operates a 200-bed multi-specialty hospital in Nagpur, Maharashtra. The company was initially incorporated in 2008 and the hospital was fully commissioned in 2018-19. MHIL acquired 100% stake in Alexis in February 2024 at an enterprise value of ₹412 crore. Alexis Hospital is a JCI-accredited facility and offers multidisciplinary care in gastroenterology, neurosurgery, cardiology, transplants, and related diagnostic facilities among others.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	138.35	152.68	98.80
PBILDT	11.23	14.34	24.10
PAT	-6.36	-2.93	NA
Overall gearing (times)	0.10	0.01	NA
Interest coverage (times)	7.91	12.36	NA

A: Audited UA: Unaudited NA: Not Available; Note: these are latest available financial results

About MHIL

MHIL was incorporated in 2001 and is primarily engaged in providing healthcare services. Max hospital network consists of 20 multi-specialty hospitals/medical centres, super-specialty hospitals, and primary care clinics as on June 30, 2024 (PY: 17 hospitals), including three PHFs, Max Saket East (Devki Devi Society), Max Smart Saket (Gujarmal Modi Society), and Max Patparganj (Balaji Society), two Radiant hospitals being operated on O&M basis, BL Kapur (Lahore Hospital Society) and Nanavati and Dwarka Hospital, which is an asset light venture. Of these, 13 facilities (hospitals and medical centres) were in Delhi and NCR and the others in Mohali, Punjab (2), Bathinda, Punjab (1), Dehradun, Uttarakhand (1), Lucknow, UP (1), Nagpur (1) and Mumbai (1). MHIL network has ~4,300 operational beds capacity as on June 30, 2024 (including Muthoot Dwarka) predominantly operating in Delhi-NCR and Mumbai regions.

Brief Financials-MHIL Consol (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	4,562.60	5,437.14	1,542.95
PBILDT	1,240.46	1,534.95	387.41
PAT	1,103.51	1,057.64	236.27
Overall gearing (times)	0.20	0.29	0.21
Interest coverage (times)	14.80	21.44	16.22

A: Audited UA: Unaudited; Note: these are latest available financial results

Brief Financials-MHC Network (₹ crore) *	March 31, 2023 (UA)	March 31, 2024 (UA)	Q1FY25 (UA)
Total operating income	5,904	6,849	1,935
PBILDT	1,597	1,840	479
PAT	1,588	1,278	295

*Including three PHFs (Devki Devi Foundation, Gujarmal Modi Hospital & Research Centre and Balaji Medical & Diagnostics Research Centre)
UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based/Non-fund-based-LT/ST		-	-	-	25.00	CARE AA-; Stable / CARE A1+

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based/Non-fund-based-LT/ST	LT/ST	25.00	CARE AA-; Stable / CARE A1+				

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based/Non-fund-based-LT/ST	Simple

Annexure-5: Lender details

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

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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