# Gujarmal Modi Hospital And Research Centre For Medical Sciences

October 08, 2024

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 15.00 | CARE AA-; Stable | Upgraded from CARE A+; Stable |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

CARE Ratings has revised the long-term rating assigned to the bank facilities of Gujarmal Modi Hospital And Research Centre For Medical Sciences (GMHRCMS) from 'CARE A+; Stable to CARE AA-; Stable'. The upgrade in long-term rating factors in the improvement in the credit profile of MHIL and GMHRCMS has strong operational and financial linkages with the same being in similar nature of business and sharing a common brand name. The revision also duly factors in the improvement in operational and financial performance of GMHRCMS backed by healthy ARPOB growth of 16.95% to Rs. 62,100 with steady occupancy level of 78.8% in FY24 and strong capital structure in absence of any external LT borrowings.

The rating continues to draw comfort from the strategic importance of GMHRCMS to Max Healthcare Institute Limited (MHIL; rated 'CARE AA+; Stable/CARE A1+') and the demonstrated track record of support in form of unsecured loans and security deposits which is expected to continue going forward as well. GMHRCMS has a long-term medical service agreement (MSA) with MHIL valid for 90 years under which GMHRCMS is allowed to use the brand name of 'Max Hospital' and MHIL provides medical services to the 250-bed hospital that GMHRCMS manages and operates. CARE also notes that there is cash flow fungibility between PHFs (Partner Healthcare Facilities) and MHIL & its subsidiaries, which further strengthens the profitability and cash flows at MHIL on consolidated level.

MHIL has a strong business & financial risk profile on the back of sustained improved operational performance with healthy average revenue per occupied bed (ARPOB) growth, industry leading occupancy levels resulting into healthy revenue and operating margin with sustenance in strong capital structure and healthy debt coverage metrics over the years. The growth in GMHRCMS and Max network's revenue was driven by higher inpatient volumes, changes in specialty mix towards higher value specialties leading to better average revenue per occupied bed (ARPOB) while maintaining industry leading occupancy levels.

Ratings also continue to derive strength from the 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 continue to remain constrained 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**

- Improvement in the credit profile of MHIL
- Sustained improvement in scale of operations and operating margin above 18% on consistent basis thereby contributing significantly to MHC Network.

**Negative factors**

- Deterioration in credit profile of MHIL
- Sustained deterioration in scale of operations below Rs. 250 crore per year and PBILDT margin below 10%
- Cancellation of the MSA agreement with MHIL or any withdrawal of support given by MHIL to GMHRCMS

**Analytical approach:** Standalone, the ratings however factors in the strong management, operational and financial linkages with Max Healthcare Institute Ltd (MHIL).

**Outlook:** Stable

Care Ratings believe that GMHRCMS will continue to benefit over near to medium term from its established presence in the Delhi/NCR market and healthy operating efficiencies. The comfortable debt metrics of the entity are likely to sustain over the medium term and will continue to get operational and financial support from MHIL as & when required.

## Detailed description of key rating drivers:

### Key strengths

**Strategic importance and strong operational linkages of GMHRCMS with MHIL**

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

GMHRCMS operates one matured hospital property namely 'Max Smart Super Speciality Hospital, Saket' which is a 250-bed facility and contributed around 8% and 3.5% to MHIL's network level revenue and PBILDT in FY24 (FY23: 7% and 4% respectively). Under the long-term master service agreement (MSA) valid for 90 years, GMHRCMS continues to derive benefit from MHIL's experienced team of doctors with expertise in various specialities and established brand positioning of Max Healthcare. GMHRCMS is strategically important for MHIL to maintain its market presence in key market region Delhi NCR. GMHRCMS reported higher ARPOB of Rs. 62,100 (PY: Rs. 53,100) on gross revenue basis and occupancy of 78.8% in FY24 (PY: 81.6%). Operationally, as well, GMHRCMS is well integrated with MHIL, with raw material procurement, finance functions, etc., being centrally managed. MHIL intends to extend the any kind of support GMHRCMS may require in the future for its expansion and operational purposes as well. CARE Ratings believes GMHRCMS would remain strategically and operationally integral to MHIL's growth plans.

**Strong financial risk profile characterised by sound operational efficiencies, healthy capital structure and debt coverage indicators**
At a consolidated level, MHIL has been demonstrating healthy revenue growth over past 5 years continued through FY24 with a strong revenue growth of 19.17% to ₹5,437 crores as compared with ₹4,562.60 crores in FY23 on the back of steady occupancy rates at around 74.5% in FY24 compared to 76.4% in FY23 and healthy ARPOB growth of over 12% in FY24 to ₹75,800 (PY: ₹67,400) which was mainly driven by price revisions, increased traction from medical tourism, improved share of oncology. increased OPD footfalls etc.
MHIL at network level including all its subsidiaries and PHFs recorded a TOI and EBIDTA of ₹6,849 crore and ₹1,840 crores in FY24 as against ₹5,904 crores and ₹1,597 crores in FY23 respectively. Further TOI at Network level in Q1FY24 stood at ₹1,935 crore compared to ₹1629 crore in Q1FY24 registering a growth of 18.78% y-o-y with PBILDT of ₹479 crores.
MHIL, along with its network of hospitals, is further expected to generate higher ARPOBs and profitability margins on account of the substantial market share it has in North India in complex treatments like bone marrow transplant (BTM), oncology, etc, ramp up from three new hospitals (Lucknow, Nagpur and Dwarka) as well as with the management's focus on optimisation of higher ARPOB generating payor mix, surgical mix and the cluster approach to maintaining its brand in metro cities.
MHIL has a robust capital structure and strong debt coverage indicators with net debt to PBILDT sustaining at 0.53 times as on March 31, 2024. Net debt to PBILDT is expected to remain below 1.5 times at the MHIL level while the management has aggressive plans to pursue organic and in-organic growth over the medium term.

At a standalone level, GMHRCMS reported revenue growth of 8.42% to Rs. 434.77 crores with PBILDT margin of 14.83% in FY24 (PY: 15.79%). Total debt to PBILDT reported at 5.64x as on March 31, 2024 compared to 5.66x as on March 31, 2023. As on March 31, 2024, out of total outstanding debt of Rs. 363.59 crores (PY: Rs. 358.21 crores), however GMHRCMS has no external debt as entire LT borrowings of Rs. 352.74 Cr from group companies and remaining Rs. 10.40 crore is WC borrowings.

**Established market position driven by strong brand equity in premium market regions like Delhi-NCR and Mumbai**
MHIL including its subsidiaries and societies commands a leading market position particularly in the north India region, as it operates 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 alone contributes more than 60% of the group's The association of GMHRCMS with Max as a brand will help the company to command higher ARPOB and increased footfalls, which shall lead to better occupancy levels which shall drive the revenue and margin growth forward.

**Diversification across various specialities and improving channel mix**
MHIL including all its network hospitals derive the revenues from several specialities, including cardiology, oncology, neurology, orthopaedic, etc, thus not depending upon any single speciality. Among the various specialties, oncology, cardiac, neurology, Gynac, Paediatric, ENT, Opthal etc have demonstrated healthy growth during the past year. During the year, FY24, MHIL performed 13,150 oncology surgeries, 46,500 cardiac surgeries and 10,450 cardiac surgeries among other complex procedures which are expected to surpass in current fiscal 2025. These surgeries enabled MHIL and all its subsidiaries and PHF's to achieve higher profitability as these are high cost and high margin procedures. MHIL also has a well-diversified channel mix, which includes cash, third-party administrators (TPAs) and corporates, institutions, referrals, and international business. GMHRCMS also has diversified revenue streams across various specialities including cardiology, oncology, neurology, orthopaedics, etc., thus not depending upon any single specialty.
MHIL derived 18.06% (PY: 17.27%) of its total FY24 revenue from the institutional/public sector undertaking (PSU) segment, which is a low-margin business, while the international segment was 9.14% (PY: 8.54%). The company plans to optimise its payor mix further by reducing the contribution from the PSU segment and focusing more on international business going forward. The group (including three trusts) has around 1,800+ doctors, 6,500+ nurses, and 1,100+ consultant physicians on board, to service its patients, as on March 31, 2024. The group also has capital light adjacencies through Max Home and Max Labs which provides homecare services and non-captive pathology and have NABL certification.

## Key weaknesses

**Exposure to regulatory risk**
MHIL and network entities operate in a regulated industry that has witnessed continuous regulatory intervention in the past couple of years. Regulations such as the capping of stent prices and knee implants and stricter compliance norms have adversely impacted the company's margin in the past. Any such future regulations may have an adverse impact on the group's profitability, and thus, 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. The MHIL network has a higher proportion of beds in metro cities as compared to other top players, which has helped the company clock higher ARPOBs than its peers.
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 recent efforts have been taken by the company to expand the geographically presence in other states as well, and in this direction, MHIL has acquired Starlit and Alexis, which are in Lucknow and Nagpur with 550 and 200 beds, respectively. MHIL expects to refurbish the present infrastructure of Lucknow hospital and further add 140 beds by end of calendar year 2025. The directive by Supreme court for fixation of standardised prices which came in February 2024 for hospitals is not likely to have sustained adverse impact on MHIL's operations, however, remains a key monitorable in case any action is taken. Further, GMHRCMS operates a single hospital in Delhi region and therefore the cash flows of the entity remain exposed to any 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 the rising preference towards brands, higher quality and organized diagnostics and self-awareness among masses with increasing insurance penetration, there is a high competition in the healthcare sector from other established brands like Fortis, Apollo, 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's 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', Muthoot Dwarka etc.

## **Liquidity**: Adequate

GMHRCMS's liquidity profile is adequate and marked with expected cash accruals of close to Rs. 72.53 crores in FY25 whereas long- term debt outside of MHC network is Nil. The liquidity is further aided by its strong operational and financial linkages with MHIL as well as demonstrated track of extended support in form of long-term security deposit and interest-bearing unsecured loan from MHIL to the tune of Rs. 214.29 crores and Rs. 138.45 crores respectively as on March 31, 2024 (PY: Rs. 214.29 crores and Rs. 138.45 crores) and free cash and bank balance of Rs. 1.26 crores as on June 30, 2024. Further, the liquidity is supported by very minimal utilization of sanctioned working capital facility of Rs. 15 crores (o/s Rs. 4.22 crores as on June 30, 2024) leaving adequate buffer for any future exigencies. CARE draws comfort from the fact that there is no repayment obligation in the entity and entire cash generation from operations is available for growth purposes. GMHRCMS also has a planned capex for Rs. 566 crores to be incurred over a period of next 2-3 years for adding 375 beds at the existing Saket hospital (increase from 250 to 625 beds) while the routine capex will be incurred in range of Rs. 15-20 crores every year, this shall be entirely funded through internal accruals and unsecured loan from MHIL.

Liquidity profile of GMHRCMS is supported with MHIL's strong liquidity position given its healthy gross cash accruals (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 MHIL consol level 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 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 2-3 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

## About the company and industry

## Industry classification

| Macroeconomic indicator | Sector | Industry | Basic industry |
|---|---|---|---|
| Healthcare | Healthcare | Healthcare Services | Hospital |

Gujarmal Modi Hospital and Research Centre for Medical Science (GMHRCMS), registered under Society Registration Act XXI of 1860, operates a 250 beds hospital in Saket, New Delhi. GMHRCMS initially signed a medical service agreement (MSA) with Saket City Hospitals Limited (SCHL), a wholly owned subsidiary of Max Healthcare Institute Limited (MHIL). However, SCHL was voluntarily liquidated w.e.f. August 31, 2022 and its assets were transferred to MHIL by NCLT vide its order dated April 24, 2024 approving the dissolution of SCHL. GMHRCMS operates the Max Smart Super Speciality Hospital in Saket, New Delhi. GMHRCMS is managed by a trust governing body and an executive trustee. MHIL has the right to nominate and appoint members of the trust that manage the society GMHRCMS.

| Brief Financials-Standalone (₹ crore) | March 31, 2023 (A) | March 31, 2024 (A) | Q1FY25 (UA) |
|---|---|---|---|
| Total operating income | 400.98 | 434.77 | 122.00 |
| PBILDT | 63.33 | 64.48 | 18.00 |
| PAT | 26.19 | 25.35 | 6.00 |
| Overall gearing (times) | -2.54 | -3.21 | -3.33 |
| Interest coverage (times) | 2.27 | 2.24 | 2.57 |

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

## About MHIL

Max Healthcare Institute Limited (MHIL) incorporated in year 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 partner healthcare facilities (PHFs) viz, Max Saket East (Devki Devi Society), Max Smart Saket (Gujarmal Modi Society) and Max Patparganj (Balaji Society), two Radiant hospitals being operated on an O&M basis, viz, BL Kapur (Lahore Hospital Society) and Nanavati and Dwarka Hospital which is an asset light venture. Of this, 13 facilities (hospitals and medical centres) were located in Delhi & 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 approx. 4,300 operational beds capacity as on June 30, 2024 (including Muthoot Dwarka) predominantly operating in the 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 3 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 - LT-Cash Credit | | - | - | - | 15.00 | CARE AA-; Stable |

**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 - LT-Cash Credit | LT | 15.00 | CARE AA-; Stable | - | 1)CARE A+; Stable (09-Oct-23) | 1)CARE A+; Stable (23-Aug-22) | 1)CARE BBB+; Stable (07-Jul-21) |

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 - LT-Cash Credit | Simple |

**Annexure-5: Lender details**

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| To view the 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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