Balaji Medical And Diagnostics Research Centre

October 09, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	25.00	CARE AA; Stable	Upgraded from CARE AA-; Stable
Short-term bank facilities	20.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings for long-term bank facilities of Balaji Medical and Diagnostics Research Centre (BMDRC) have been upgraded to 'CARE AA; Stable' from 'CARE AA-; Stable'. Upgrade in long-term rating factors in improvement in credit profile of the flagship entity Max Healthcare Institute Limited (MHIL, rated 'CARE AA+; Stable/CARE A1+') with which BMDRC has strong operational and financial linkages. Ratings further factor in sustained improvement in operational and financial performance of BMDRC in FY24 (refers to April 01 till March 31). Improvement in financial risk profile was driven by healthy cash generation at the Max network level, which was contributed by growth in each entity including BMDRC. Growth in BMDRC 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. CARE Ratings Limited (CARE Ratings) also notes that there is cash flow fungibility between PHFs, MHIL and its subsidiaries, which further strengthens MHIL's profitability and cash flows on consolidated level.

Ratings continues to reflect strategic importance of BMDRC to MHIL. Ratings also consider BMDRC's operational and financial linkages with MHIL, apart from demonstrated support it has received from MHIL in the past, which is expected to continue going forward. BMDRC had signed a long-term medical service agreement (MSA) with MHIL, under which, MHIL has the right to provide medical services in these hospitals across specialties and BMDRC is allowed to use brand name of Max Hospital. Ratings' upgrade further factored in strong capital structure, healthy debt protection metrics of MHIL along with its PHFs.

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 significant brand equity of 'Max Healthcare'.

However, rating strengths continue to remain constrained by exposure towards regulated healthcare industry and competition intensity in its operating region.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significantly improving credit profile of MHIL and increasing contribution by BMDRC to MHIL bed share, absolute revenue and profitability.

Negative factors

- Deteriorating credit profile of MHIL.
- Deteriorating in operational performance of BMDRC leading to subdued profitability at entity and MHC network level.
- Cancellation of the MSA agreement with MHIL or withdrawal of support given by MHIL to BMDRC.

Analytical approach: Standalone.
The rating factors strong management, operational and financial linkages with MHIL.

Outlook: Stable
CARE Ratings believe that BMDRC will continue to benefit in the near-to-medium term from its established presence in the Delhi/NCR market and healthy operating efficiencies. BMDRC's comfortable debt metrics are likely to sustain in the medium term and will continue to get operational and financial support from MHIL.

Detailed description of key rating drivers:

Key strengths

Strategic importance and strong operational linkages of BMDRC with MHIL

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

BMDRC contributed ~9% and 5% to MHIL's network level revenue and earnings before interest, taxation, depreciation, and amortisation (EBITDA), respectively in FY24 (in FY23, the contribution was 10% and 7% respectively). By entering an MSA with MHIL, BMDRC has access to Max Hospital's established brand name and is strategically very important for MHIL to maintain its market presence in its key market of Delhi NCR. The Max Patparganj hospital having 402 operational beds as on March 31, 2024, is the second-largest hospital of the MHC network by operational bed capacity. The hospital unit reported better ARPOB (on gross revenue basis) of ₹58,095 (PY: ₹53,838) and occupancy of 79.30% (PY: 79.10%) in FY24. The hospital is one of the three hospitals in the MHIL network that has received Joint Commission International (JCI) accreditation, which helps expand its international business further. Operationally, BMDRC is well integrated with MHIL, with raw material procurement, and finance functions among others being centrally managed. MHIL has also extended a corporate guarantee for the outstanding debt of BMDRC in the past and intends to extend the kind of support it may require in the future for its expansion and operational purposes. CARE Ratings believes BMDRC would remain strategically and operationally integral to MHIL's growth plans.

Strong financial risk profile from sound operational efficiencies, healthy capital structure and debt coverage indicators

At a consolidated level, MHIL has been demonstrating healthy revenue growth in the last five years continued through FY24 with a strong revenue growth of 19.17% to ₹5,437 crore compared to ₹4,562.60 crore in FY23 considering steady occupancy rates at ~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 and increased OPD footfalls among others.

At a network level, including all its subsidiaries and PHFs, MHIL recorded total operating income (TOI) and EBIDTA of ₹6,849 crore and ₹1,840 crore in FY24 against ₹5,904 crore and ₹1,597 crore in FY23, respectively. At a network level in Q1FY24, TOI stood at ₹1,935 crore compared to ₹1629 crore in Q1FY24 registering growth of 18.78% y-o-y with profit before interest, lease rentals, depreciation, and taxation (PBILDT) of ₹479 crore.

MHIL and its network of hospitals is further expected to generate higher ARPOBs and profitability margins considering the substantial market share it has in North India in complex treatments such as bone marrow transplant (BTM), and oncology among others ramp up from three new hospitals (Lucknow, Nagpur and Dwarka) and with the management's focus on optimisation of higher ARPOB generating payor mix, surgical mix and 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 0.53x as on March 31, 2024, slightly moderated from negative 0.24x as on March 31, 2023, mainly due to the debt addition for acquisitions in FY24. Net debt to PBILDT is expected to remain below 1.5x at MHIL level, while the management has aggressive plans to pursue organic and in-organic growth in the medium term.

At standalone level, BMDRC's total income grew by 8% to ₹631.60 crore in FY24 largely due to improvement in ARPOB as occupancy level remained stable. Profitability margins reduced in FY24 to 14.73% from 18.70% in FY23 owing to higher medical fees paid to MHIL. BMDRC paid ₹131.58 crore in FY24 to MHIL for medical service fee and other expenses, which increased from ₹88.33 crore in FY23, affecting its profitability. The agreement with MHIL gets renewed every 2-3 years and hence, post share from the trust to MHIL has increase in FY24. Prodit after taxes (PAT) levels also reduced in FY24.

BMDRC has a comfortable capital structure marked by overall gearing ratio of 0.04x as on March 31, 2024 (PY: 0.08x) on a net worth base of ₹393.64 crore. Going forward, BMDRC's corpus is expected to moderate owing to cashflow fungibility between societies wherein the one society will donate to other for its capex needs. As discussed with the management, BMDRC will donate surplus funds to Nirogi society for capex in the latter.

Established market position driven by strong brand equity

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 over 60% of the group. BMDRC's association with Max as a brand will help it command higher ARPOB and increased footfalls, which shall lead to better occupancy levels driving revenue and margin growth forward.

Diversification across specialities and improving channel mix

MHIL, including all its network hospitals, derive revenues from several specialities, including cardiology, oncology, neurology, and orthopaedic among others, not depending on single speciality. Among specialties, oncology, cardiac, neurology, Gynac, Paediatric, ENT, and Opthal among others demonstrated healthy growth in the last year. In 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 FY25. 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.

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 reducing contribution from PSU segment and focusing more on international business going forward. The group (including three trusts) has ~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.

BMDRC's specialty mix is well-distributed. In FY24, BMDRC altered its specialty-mix slightly to increase the share of oncology from 18% of gross revenue in FY23 to 21% of gross revenue in FY24; which has higher ARPOBs, driving the growth in revenue. Oncology is also the highest contributor to revenue in BMDRC followed by Neurosciences at 12% of gross revenue, in-patient for Gynaecology, Medicine, Paediatric, ENT, and Ophthalmology among others and out-patient for Consulting, Packages, Radiology, and Pathology, among others each at 11% and rest by others.

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.

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, but it remains a key monitorable in case action is taken.

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 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, recent efforts have been taken by the company to expand geographically presence in other states as well, and in this direction, MHIL has acquired Starlit and Alexis 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 CY25. AHL operates a single hospital in Gurugram region, 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'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', and Muthoot Dwarka among others.

Liquidity: Strong

BMDRC is expected to incur healthy cash accruals of ₹100-115 crore against negligible repayment obligations ₹0.08 crore of vehicle loans for FY25. The society has liquid investments in the form of FD of ₹125.16 crore as on June 30, 2024. The society has sanctioned working capital limits of ₹25 crore, which was utilised at 34% as on June 30, 2024, which provides an additional liquidity buffer.

MHIL's strong liquidity position given its healthy GCA of ₹1,339 crore in FY24 and expected to be over ₹1,800 crore in the medium term against moderate debt repayment obligations (including lease liabilities) of ₹50 crore in FY24, ₹215 crore in FY25, and ₹419 crore in FY26 (including estimated repayment of JHL debt). Cash accruals generated by PHFs is close to ₹320 crore in FY24, against which, debt repayments are nominal ~₹3- crore yearly. Debt repaid at MHIL consol level in Q1FY25 is close to ₹19.78 crore. 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 working capital limit of ₹345.63 crore, against which, utilisation is nominal of ₹103.74 crore, leaving sufficient buffer for exigencies. Cash accruals of MHC network in coming years will be partially applied towards capex commitments in the 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](#)
[Manufacturing Companies](#)
[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

Registered under Society Registration Act XXI of 1860, BMDRC operates a 400 plus tertiary care beds and 100 plus critical care beds hospital in Patparganj, New Delhi. MHIL has a medical service agreement signed with BMDRC, under which, MHIL has the right to provide medical services in these hospitals across specialties, and BMDRC is allowed to use the brand name of Max hospital. The Patparganj hospital reported ARPOB of ₹58,095 (PY: ₹53,838) on gross revenue basis and occupancy of 79.30% (PY: 79.10%) in FY24.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	536.14	583.61	631.60
PBILDT	127.67	109.12	93.04
PAT	101.16	94.87	84.68
Overall gearing (times)	0.37	0.08	0.04
Interest coverage (times)	12.84	15.07	34.70

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

About MHIL

MHIL 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 this, 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 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		-	-	-	25.00	CARE AA; Stable
Non-fund-based - ST-BG/LC		-	-	-	20.00	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 - LT-Term Loan	LT	-	-	-	1)Withdrawn (09-Oct-23)	1)CARE AA (CE); Stable (23-Aug-22)	1)CARE AA- (CE); Stable (07-Jul-21)
2	Fund-based - LT-Cash Credit	LT	25.00	CARE AA; Stable	-	1)CARE AA-; Stable (09-Oct-23)	1)CARE AA-; Stable (23-Aug-22)	1)CARE AA- (CE); Stable (07-Jul-21)
3	Non-fund-based - ST-BG/LC	ST	20.00	CARE A1+	-	1)CARE A1+ (09-Oct-23)	1)CARE A1+ (23-Aug-22)	1)CARE A1+ (CE) (07-Jul-21)
4	Un Supported Rating-Un Supported Rating (Long Term)	LT	-	-	-	1)Withdrawn (09-Oct-23)	1)CARE AA- (23-Aug-22)	1)CARE A- (07-Jul-21)
5	Un Supported Rating-Un Supported Rating (Short Term)	ST	-	-	-	1)Withdrawn (09-Oct-23)	1)CARE A1+ (23-Aug-22)	1)CARE A2+ (07-Jul-21)

LT: Long term; ST: 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
2	Non-fund-based - ST-BG/LC	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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