ALPS Hospital Limited

October 09, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	36.40	CARE AA+; Stable	Upgraded from CARE AA; Positive
Short-term bank facilities	14.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has revised long-term rating assigned to bank facilities of Alps Hospital Limited (AHL) from 'CARE AA; Positive to CARE AA+; Stable'. Upgrade in the long-term rating factors in improvement in the credit profile of the Parent entity Max Healthcare Institute Limited (MHIL; rated 'CARE AA+; Stable/CARE A1+'), which holds 100% in AHL and it strong operational and financial linkages being in similar nature of business and sharing a common brand name. Revision also duly factors in improvement in AHL's operational and financial performance backed by healthy average revenue per bed (ARPOB) growth of 22% to ₹1,04,850 with steady occupancy level of 68% in FY24 (refers to April 01 to March 31) and its strong capital structure. The rating continues to draw comfort from AHL's strategic importance to MHIL with strong operational and financial linkages with MHIL through demonstrated support in the past, which is expected to continue going forward.

MHIL has a strong business and financial risk profile, considering sustained improved operational performance with healthy ARPOB growth, industry leading occupancy levels resulting in healthy revenue and operating margin with sustenance in strong capital structure and healthy debt coverage metrics over the years. Growth in AHL and Max network's revenue was driven by higher inpatient volumes, changes in specialty mix towards higher value specialties, leading to better ARPOB, while maintaining industry leading occupancy levels.

The rating also continues 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

- Increasing diversification across centres, geographies, or business segments leading to overall growth in topline without impacting profitability margins.
- Improving overall credit profile of parent – MHIL.

Negative factors

- Deteriorating overall credit profile of parent – MHIL.
- Declining profitability below 18% on a sustained basis.

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

Outlook: Stable
CARE Ratings believe that AHL's financial risk profile will continue to benefit in the near-to-medium term from its established presence in the core region it operates and sound operating efficiencies. The entity'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 with the parent
In 2007, Max started a 72- bed hospital in Gurugram, which is now a part of AHL, a wholly owned subsidiary of the company. AHL has strong operating metrics which are getting benefitted from the brand equity of Max Healthcare as a brand. AHL's revenue

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

and earnings before interest, taxation, depreciation, and amortisation (EBITDA) contributed ~5% each to MHIL's network level revenue and EBITDA and 6% each to MHIL consolidated revenue and EBITDA. As a subsidiary of MHIL, AHL has an established market presence and is strategically important for MHIL to maintain its market presence in its key operating market Delhi NCR. In FY24, ARPOB (on gross revenue basis) increased by 22% to Rs 1,04,850 from ₹85,810 in FY23. Operationally, AHL 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 AHL 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 AHL 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 earnings before interest, taxation, depreciation, and amortisation (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 a standalone level, AHL reported healthy growth in revenue of 42% to ₹308.35 crore with increased PBILDT margin of 28.01% in FY24 (PY: 24.24%). It also has strong leverage position with total debt to PBILDT reported at 0.46x as on March 31, 2024, compared to 0.60x as on March 31, 2023. As on March 31, 2024, total outstanding debt stood at ₹39.94 crore (PY: ₹31.71 crore).

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. AHL'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.

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 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.

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

AHL's liquidity position is marked by expected gross cash accruals (GCA) of ₹60-62 crore against scheduled repayment obligations of close to ₹26 crore in FY25, which is further aided by free cash and bank balance of ₹22.52 crore as on June 30, 2024. AHL's liquidity profile is expected to remain comfortable in absence of debt funded capex plans in the near future.

AHL's liquidity profile 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 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
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

AHL was incorporated on May 26, 1989, and is a 100% subsidiary of MHIL. It operates one hospital property 'Max Hospital, Gurugram' with 98 operational beds capacity as on March 31, 2024. Gurugram being a Corporate Hub and part of Delhi NCR region is of high strategic importance to the Max Hospital Group. The hospital also has dispensaries, maternity and family welfare centres, diagnostic and pathology centres, emergency and trauma centres, XRay, and E.C.G centres, among others.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (Prov.)
Total operating income	217.67	308.35
PBILDT	52.76	86.36
PAT	35.69	63.69
Overall gearing (times)	0.22	0.20
Interest coverage (times)	13.32	19.02

A: Audited Prov.: Provisional, 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 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 - LT-Cash Credit		-	-	-	10.00	CARE AA+; Stable
Fund-based - LT-Term Loan		-	-	31 March 2027	26.40	CARE AA+; Stable
Non-fund-based - ST-BG/LC		-	-	-	14.00	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	26.40	CARE AA+; Stable	-	1)CARE AA; Positive (09-Oct-23)	1)CARE AA; Stable (23-Aug-22)	1)CARE AA-; Stable (07-Jul-21)
2	Fund-based - LT-Cash Credit	LT	10.00	CARE AA+; Stable	-	1)CARE AA; Positive (09-Oct-23)	1)CARE AA; Stable (23-Aug-22)	1)CARE AA-; Stable (07-Jul-21)
3	Non-fund-based - ST-BG/LC	ST	14.00	CARE A1+	-	1)CARE A1+ (09-Oct-23)	1)CARE A1+ (23-Aug-22)	1)CARE A1+ (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	Fund-based - LT-Term Loan	Simple
3	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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