Gujarmal Modi Hospital and Research Centre for Medical Sciences (Revised)

August 23, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	15.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)
Total bank facilities	**15.00 (₹ Fifteen crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating for the bank facilities of Gujarmal Modi Hospital and Research Centre for Medical Sciences (GMHRCMS) reflects the strategic importance of GMHRCMS to Max Healthcare Institute Limited (MHIL, rated 'CARE AA; Stable/CARE A1+'). The rating also takes into account GMHRCMS' operational and financial linkages with MHIL besides the demonstrated support, viz., unsecured loans and security deposits it has received from the group in the past, which is expected to continue going forward as well. GMHRCMS had signed a medical service agreement (MSA) with Saket City Hospitals Limited (SCHL), a wholly-owned subsidiary of MHIL, in the year 2016 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.

The revision in the rating assigned to the long-term bank facilities of GMHRCMS take into account significant improvement in the financial risk profile of MHIL along with GMHRCMS in FY22 (refers to the period from April 01 to March 31) and Q1FY23 (refers to the period from April 01 to June 30) characterised by growth in the total operating income (TOI) and enhanced profitability and coverage indicators. The revenue growth was backed by improvement across in-patient and out-patient volumes as well as average revenue per occupied bed (ARPOB) indicating the company's strengthening market position. The margin expansion was supported by improvement in the company's ARPOB, occupancy and healthy ramp-up in surgical procedures post the pandemic in addition to various cost-reduction and efficiency measures undertaken by the company. CARE Ratings Limited (CARE Ratings) expects the performance to sustain on the back of the company's strong market position across key metro cities and due to the cost-containment measures adopted by the management over the last two years.

The rating assigned to the bank facilities of GMHRCMS continues to draw comfort from experienced and resourceful management of MHIL, its favourable location, established brand position, healthy operational parameters leading to improving scale of operations and comfortable profitability margins. The rating continues to take into cognisance the fact that GMHRCMS has become part of Max healthcare group post completion of merger between MHIL and Radiant Life Care Private Limited (RLCPL, previous operator) effective from June 01, 2020.

The rating continues to factor in the company's established position in the healthcare sector, diversification across various specialties, experienced team of doctors, modern infrastructure, and the significant brand equity of 'Max Healthcare'. CARE Ratings also factors in the complete exit of the private equity investor, KKR (through Kayak Investments Holding Pte. Ltd) through a block deal and change in shareholding post the said transaction. The rating takes into account the strong liquidity profile of the group, and significant undrawn lines of credit and financial flexibility to avail additional limits. CARE Ratings also notes that the positive demand outlook for healthcare services in the country due to factors, such as better affordability through increasing per capita income and widening medical insurance coverage, growing awareness for healthcare and under-penetration of healthcare services, is expected to benefit the company given its scalable model.

The rating is, however, constrained by the high concentration of the Max Healthcare group along with its subsidiaries in the Delhi-NCR region for revenue as well as profit generation, regulatory risk along with competition from other established players in the industry. The management has guided that a mix of brownfield, greenfield and inorganic acquisition opportunities would be undertaken by MHIL as a whole to expand further, but net debt/PBILDT (profit before interest, tax and depreciation) would not exceed 2x to 2.5x. CARE Ratings will continue to monitor the developments and expansion plans of the group in such regards. Also, any future wave of COVID-19 and its impact on the company would remain a key monitorable.

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

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in the credit profile of MHIL.
- Sustained improvement in the scale of operations above ₹500 crore annually and PBILDT margin above 18% on consistent basis thereby contributing significantly to MHC Network.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Deterioration in credit profile of MHIL.
- Sustained deterioration in scale of operations below ₹250 crore per year and PBILDT margin below 10%.
- Deterioration in the operational performance of GMHRCMS leading to subdued profitability at entity and MHIL network level.
- Cancellation of the MSA agreement with SCHL or any withdrawal of support given by the group to GMHRCMS.

Detailed description of the key rating drivers

Key rating strengths

Strategic importance and strong operational linkages of GMHRCMS with MHIL: GMHRCMS contributed around 6% and 4% to MHIL's network level revenue and EBITDA, respectively. By entering into a MSA with SCHL, GMHRCMS has an established market presence and is strategically very important for MHIL to maintain its market presence in its key market of Delhi NCR. The hospital unit reported better ARPOB of ₹46,852 (PY: ₹41,583) on gross revenue basis and occupancy of 77.5% (PY: 69%) in FY22.

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.

Sound operational efficiencies and long-term structural cost-savings, boosting profitability margins: With its hospital portfolio having matured over the past few years, the group has demonstrated improvement in its operational parameters as indicated by the occupancy rate, ARPOB, average length of stay (ALOS), inpatient-outpatient registrations, etc. The presence in premium markets (namely, Delhi NCR and Mumbai) along with superior case mix leads to a higher ARPOB for MHIL when compared with its industry peers. The occupancy rate increased to 75% in FY22 versus 65% in FY21 at a consolidated level. The average occupancy rate has remained around 72% during the last five years indicating the brand equity of "Max Hospitals" and acceptability of the same among patients. Post sharp fall in the occupancy rate at the start of first wave of COVID-19 at the end of March 2020, the occupancy steadily rose back to its peak levels in Q3FY21 and has remained consistently at 70%+ levels month-on-month excepting few months where it fell due to the Omicron wave.

MHIL's focus on cost-saving initiatives and long-term structural cost savings programme helped it to achieve operational efficiency and stable earnings. For MHIL consolidated (excluding three trusts), the ARPOB reported significant uptick of over 15% in FY22 to ₹58,500, which was mainly due to the people opting for higher number of elective surgeries as COVID-19 cases receded. The drop in COVID-19 occupancy enabled ramp-up in higher ARPOB as a result of which the ARPOB increased to around ₹63,500 in Q4 from ₹51,500 in Q1. Furthermore, domestic medical tourism also showed signs of recovery and international patient footfalls normalised to around 90% of pre-COVID levels in March 2022, post resumption of regular flights.

At a standalone level, GMHRCMS reported PBILDT margin of 15.59% in FY22 as compared with 12.24% in FY21. Furthermore, it reported PBILDT margin of 17.2% in Q1FY23 as against 17.9% in Q1FY22. MHIL reported an improvement in its PBILDT margin, which stood at 23.71% for FY22 as compared with 17.05% in FY21 on account of operating leverage on a quarterly basis, the company managed to report PBILDT margins in the range of 25% in Q1FY22 and Q1FY23.

MHIL along with its network of hospitals is further expected to generate higher ARPOBs on account of the market share it has in north India in complex treatments like bone marrow transplant (BMT), oncology, etc. The improvement in profitability margins is expected to be sustained in the long term with gradual restoration in medical tourism, management's focus on optimisation of higher ARPOB generating payor mix and cluster approach to maintain its brand in the metros.

Healthy financial risk profile characterised by growth in income, profit and strong capital structure: At a standalone level, GMHRCMS recorded TOI and PAT of ₹332.68 crore and ₹10.29 crore, respectively, in FY22. At a consolidated level, MHIL witnessed a growth of 56% in its TOI in FY22 to ₹3,925.67 crore as compared with ₹2,522.55 crore in FY21, which was driven by increasing health insurance penetration, better patient mix, increasing ARPOB and growth in medical tourism. MHC network (inclusive of partner healthcare facilities) recorded TOI and profit after tax (PAT) of ₹5,218 crore and ₹837 crore, respectively, in FY22 as against ₹3,629 crore and loss of ₹95 crore in FY21.

The operating PBILDT registered a growth of year-on-year at a consolidated level and at each hospital level. Strong revenue growth was driven by increasing health insurance penetration, better patient mix, increasing ARPOB and growth in medical tourism. The EBITDA growth was faster than the revenue growth driven by operating leverage. Similar trends were noted for MHC Network as a whole as well. The cost structure for MHIL has significantly improved over the past two years with management continuously taking cost-optimisation measures with few being driven also due to COVID. This is driven by structural cost optimisation: power & fuel, lab investigations, corporate overheads, eliminating waste and discretionary spends, etc., and COVID-19-led savings: travel and conveyance, advertising, etc.
The debt coverage indicators of the company also remained strong.

Established and leading market position driven by strong brand equity: MHIL started its operations in 2001 and has established itself as a leading market player in the Northern India region. MHIL operates 17 facilities in India (including five trusts). Among the 17 facilities together, MHIL has over 3,400 beds out of which 3,271 were operational beds in Q4 FY22 which operated at around 68% occupancy. The FY22 occupancy turned out to be 75%.
All the hospitals are National Accreditation Board for Hospitals & Healthcare Providers (NABH) and ISO accredited, and three of the hospitals have also received Joint Commission International (JCI) accreditation which will help MHIL expand its international business further. Given its established presence, the company is poised to benefit from the buoyant outlook of the domestic healthcare industry.

Diversification across various specialties and improving channel mix: MHIL derives its revenues from several specialties, including cardiology, oncology, neurology, orthopaedic, etc., thus not depending upon any single specialty. Among the various specialties, oncology, cardiac and neurology have demonstrated healthy growth during the last year.
The MHIL also has a well-diversified channel mix, which includes cash, TPA & corporates, institutions, referrals, and international business. MHIL derived 20% (PY: 23%) of its total FY22 revenue from the Institutional/public sector undertaking (PSU) segment, which is a low-margin business while international segment was at 5.54% (PY: 3.91%) despite COVID-19-related travel restrictions. The company plans to optimise its payor mix further by reducing the contribution from PSU segment and focus more on international business going forward.
The operations of the company are well supported by a team of experienced doctors, nurses, and paramedic staff. The doctors on board are well-qualified and have relevant experience. The group (including three partner healthcare facilities) has around 2,200+ doctors, 5,800+ nurses, and 1,000+ consultant physicians on board to service its patients as on March 31, 2022.
The group has recently increased its focus on pathology business wherein it owns 28 hospital-based labs, which have NABL certification. These offer 1,900+ tests through a network of more than 300 partner-run collection centres and 25 company-owned centres as on March 31, 2022.

Resourceful promoter group and experienced management team: Abhay Soi is the Promoter, Chairman and Managing Director of MHIL. Before the acquisition and merger with MHIL, Soi was the Promoter, Chairman and Managing Director of Radiant Life Care Private Limited (RLCPL). He forayed into healthcare space in 2010 and is credited for successfully revamping RLCPL's healthcare facilities, i.e., Dr BL Kapur Memorial Hospital, Delhi (BLK) and Dr Balabhai Nanavati Hospital, Mumbai (Nanavati). Both of these hospitals have now come under the MHIL umbrella post-merger. He has experience in financial restructuring business and exposure of various industries like mining, financial services, textiles, and specialty chemicals, etc. KKR has invested around ₹2,000 crore in erstwhile Radiant for the acquisition of MHIL. KKR & Co. Inc. (formerly known as Kohlberg Kravis Roberts & Co. and KKR & Co. L.P.), which is an American global investment company that manages multiple alternative asset classes, including, energy, infrastructure, real estate, credit, and, through its strategic partners- KKR through Kayak Investments Holding Pte. Ltd. held initially 48.64% in MHIL as on March 31, 2021, which it has been selling gradually in FY22 through various block deals and it made complete exit from MHIL as on August 17, 2022, by selling the remaining balance stake of 27.54% shareholding in MHIL through a block deal.

Industry outlook: Indian healthcare delivery industry has been growing at a compounded annual growth rate (CAGR) of about 12%-14% over FY16-20 and is estimated to reach about ₹7.3 lakh crore by FY24E. Post abatement of COVID-19, the industry has witnessed a sharp recovery in topline driven by higher occupancy, release of deferred non-COVID-19 surgeries, higher ARPOBs and increased bed capacity of hospital chains. Moving forward, prudent expansion plans of the hospitals, better health insurance penetration, increasing investments in the healthcare industry and increasing public and private healthcare spends are expected to aid the Indian healthcare industry.
Looking from the macro perspective, India still lags other developed and emerging economies in healthcare infrastructure, for instance, India only has 12 beds per 10,000 people as against the global median of 29 beds. In addition to the availability of this huge domestic opportunity, India has significant opportunity of growth from medical tourism as well. The treatments mostly sought after in India are high-end treatments pertaining to complex ailments like heart surgery, knee implant, cosmetic surgery

and dental care, due to the low costs of treatments in India. This shall augur well for a player like MHIL that has majority of its hospitals located in cities of Delhi and Mumbai, which have good international connectivity.
To summarise, India is a large and hugely under-penetrated market having attractive dynamics and strong growth prospects driven by demographic shifts, changing consumption patterns, increasing affordability, favourable regulatory environment, and medical tourism. The private sector players are well positioned to leverage the opportunity given low contribution of government spending. Improved cash accruals, and cautious pattern of capex funding with adequate support in the form of equity infusion are expected to benefit the credit risk profiles of the entities operating in the healthcare industry, thus keeping the outlook of the industry stable.

Key rating weaknesses
Exposed to regulatory and concentration risk: MHIL operates in a regulated industry that has witnessed continuous regulatory intervention during the past couple of years. The regulations such as capping of stent prices and knee implants and stricter compliance norms have adversely impacted the margin of the company in past. Any such future regulation might have an adverse impact on the group's profitability and thus would remain an important monitorable.
MHIL believes in 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/ statured clinical talent leading to metros becoming regional hubs and higher health awareness. MHIL Network has 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 like Delhi NCR and Mumbai is also a significant credit risk, which makes it vulnerable to any adverse political, regulatory, or environmental event, which impacts the socio-economic situation of a particular geography.

Intense competition from other established players: Given the new wave of opportunities created by COVID-19 pandemic, rising self-awareness among masses and increasing insurance penetration, there is high competition in the healthcare sector. However, comfort is drawn from the sizeable presence and established position of Max Hospitals. Going forward, MHIL's prospects would depend upon its ability to improve its profitability, continued scale-up of operations, and to manage the competitive pressures in the sector by diversifying into other geographies or build up on its asset-light adjacencies such as 'Max Labs'.

Liquidity: Strong
GMHRCMS' liquidity derives comfort from the liquidity profile of MHIL, which is strong. MHIL's liquidity profile stands strong given its healthy cash accruals as against its moderate debt repayment. MHIL reported gross cash accruals (GCA) of around ₹844 crore in FY22 and is expected to earn similar accruals in FY23 and going forward against which the total scheduled debt repayment for FY23 stands at around ₹18 crore and in FY24 at ₹45 crore. Furthermore, the liquidity is supported by very minimal utilisation of sanctioned working capital facility. On a consolidated basis, MHIL also has cash and bank balance of ₹756 crore as on June 30, 2022.
MHIL has a capital allocation plan of close to doubling its bed capacity with almost 2,840 additional beds planned with a capex outlay of ₹3,500 crore over next 4 to 5 years in a phased manner. While the company has planned brownfield expansions other than routine capex in the near-to-medium term, it is projected to generate sufficient cash accruals, providing adequate headroom for the additional debt being raised. However, any significant debt-funded inorganic expansion which impacts the debt protection metrics will remain a key rating monitorable.
At a standalone level, GMHRCMS reported GCA of ₹25 crore in FY22 and is expected to earn similar accruals going forward against which it has no scheduled debt repayments. GMHRCMS has no external LT borrowings and borrows mainly from MHIL and its group companies through unsecured loans and security deposits. As on March 31, 2022, out of total outstanding debt of ₹368.27 Cr, GMHRCMS had LT borrowings of ₹362.92 Cr from group companies and ₹5.35 Cr as WC borrowings.

Analytical approach: Standalone, factoring strong management, operational and financial linkages with Max Healthcare Institute Ltd (MHIL).

Applicable criteria
Criteria on assigning 'outlook' and 'credit watch'
CARE's policy on default recognition
CARE's methodology for short-term instruments
Liquidity analysis of non-financial sector entities
CARE's methodology for financial ratios (non-financial sector)
Notching by factoring linkages in ratings

Rating methodology – Hospital sector
Rating methodology: Consolidation

About the society – GMHRCMS

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 has signed a medical service agreement (MSA) with Saket City Hospitals Limited (SCHL), a wholly-owned subsidiary of Max Healthcare Institute Limited (MHIL). 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 (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	June 30, 2022 (UA)
Total operating income	255.58	332.68	87
PBILDT	31.28	51.85	15
PAT	-6.62	10.29	3
Overall gearing (times)*	-1.99	-2.21	NA
Interest coverage (times)	1.00	1.73	NA

A: Audited, UA: Unaudited, NA: Not available
*For calculating overall gearing, the unsecured loans and security deposits from group companies have not been considered as part of net worth.

About the company – MHIL

MHIL was incorporated in 2001, and operates a chain of multispecialty, tertiary and primary healthcare facilities. Post-merger, MHIL has 17 facilities under its umbrella with over 3,400 bed capacity.
Max's hospital network consists of 14 owned/leased hospitals, three partner healthcare facilities (PHFs), viz., Max Saket East (Devki Devi Society), Max Smart Saket (Gujarmal Modi Society) and Max Patparganj (Balaji Society), and two Radiant hospitals being operated on an O&M basis, viz., BL Kapur (Lahore Hospital Society) and Nanavati. It has a dominant presence in the northern region. The company operates predominantly in the Delhi NCR and Mumbai regions, with around 85% of its beds located in metro/tier-I cities.

MHIL Consolidated

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	Q1FY23 (UA)
TOI	2522.55	3925.67	1066.27
PBILDT	430.12	930.65	264.36
PAT	-137.55	605.05	172.83
Overall gearing (times)	0.43	0.30	NA
Interest coverage (times)	2.40	9.23	11.82

A: Audited, UA: Unaudited; NA: Not available

MHC Network (MHIL Consolidated and three partner healthcare facilities)

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	Q1FY23 (UA)
TOI	3629	5218	1390
PBILDT	603	1340	359
PAT	-95	837	229

A: Audited, UA: Unaudited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit	-	-	-	15.00	CARE A+; Stable

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash credit	LT	15.00	CARE A+; Stable	-	1)CARE BBB+; Stable (07-Jul-21)	1)CARE BBB+; Stable (04-Nov-20)	1)CARE A (CWD) (09-Oct-19)

LT: Long-term, ST: Short-term

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

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based – LT – Cash credit	Simple

Annexure-5: Bank lender details for this company

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

Note on 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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