MGM Healthcare Private Limited

March 31, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	322.50 (Reduced from 335.50)	CARE B+; Stable (Single B Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	30.00	CARE A4 (A Four)	Assigned
Total Bank Facilities	**352.50 (Rs. Three Hundred Fifty-Two Crore and Fifty Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of MGM Healthcare Private Limited (MHPL) are constrained by the nascent stage of operations, highly leveraged capital structure, presence in the highly competitive Chennai market and reliance on scarcely available qualified medical professionals.

The ratings however derive strength from the vast experience of the promoters in the healthcare sector and focus on high end surgeries, especially in the transplant segment.

Key Rating Sensitivities

Positive Factors

- Ability of the hospital to break even on its operations.

Negative Factors

- Extension of losses beyond the estimated break-even year
- Deterioration in the liquidity position

Detailed description of the key rating drivers

Key Rating Weaknesses

Nascent stage of operations

The hospital had a soft launch in January 2019 and commenced operations in earnest in July 2019. The hospital currently has a total capacity of 360 beds and construction of the premises was completed by around December 2018. The Company reported operating income of Rs.94.1 crore in FY20 as against Rs.0.48 crore in FY19. With higher operating expenses such as employee costs and overheads, higher interest costs MHPL reported loss after tax of Rs.96.4 crore in FY20. Until November 2020 MHPL reported a total operating income of about Rs. 124.3 crore.

Highly leveraged capital structure

The Company has incurred significant capex of around Rs 425 crore as on March 31, 2020 towards construction of the hospital premises and buying equipment. This was almost entirely debt funded through bank term loan of Rs.347.5 cr and the balance through unsecured loans from the promoter. As on March 31, 2020, the company had a negative networth of Rs. 143.40 crore with only Rs 0.01 crore as equity share capital which makes the capital structure highly leveraged.

Presence in the highly competitive Chennai region with a single hospital

MHPL's income depends on a single hospital unit that exposes it to increasing competition in the region. The hospital faces high competition from established multi-speciality hospitals providing tertiary health care services, regional government and private hospitals providing primary care and secondary care services which increases the revenue risk of the company. Dependence on a single unit exposes the hospital to intense competition and revenue vulnerability.

Dependence on scarcely available professionals and growing regulation in the industry

The healthcare industry is highly dependent on the availability of qualified and experienced medical professionals. As per World Health Statistics primary data 2007-2018, the density of physicians per 10,000 population for India stands at 8 which is very low compared to that of other major countries.The increasing competition and the scarcity of medical specialists, the ability of the hospital to retain its current pool would be a key differentiator. Furthermore, the performance of the hospital sector has been affected due to multiple regulatory interventions; further apart from licensing and approvals, the Government is also constantly regulating the prices of drugs and consumables.

Key Rating Strengths

Experienced Promoters
The Chairman and Managing Director of MHPL, Mr M K Rajagopalan has extensive experience in the healthcare and hospital sector. He is the chairman of the Sri Balaji Educational & Charitable Public Trust and Sri Balaji Vidyapeeth trust which runs the Mahatma Gandhi Medical College & Research Centre (MGMCRI) established in 2001 in Pondicherry and Sathya Sai Medical College in Kanchipuram district, Tamil Nadu which was established in 2007. Sri Balaji Vidyapeeth reported total revenue of around Rs. 636 crore with a surplus of Rs. 345 crore in FY20. MGMCRI is equipped with 1280 beds in the college premises and this gives the promoters considerable experience in the hospital sector. MGM Healthcare was established to enter the Chennai healthcare market. As of March 31, 2020, the promoters have given support in the form of unsecured loans of around Rs. 158 crore through entities controlled by the promoter.

Focus on high end surgeries, especially in the transplant segment
MHPL was established in Chennai in 2019 as a quaternary care multi-speciality hospital catering to patients in Chennai and surrounding regions. The hospital has around 360 beds, over 200 of which are operational after accounting for beds for ICU care, dialysis etc. The hospital has over 55 outpatient consultant rooms, 12 operation theatres and more than 30 specialities including Cardiology, Orthopaedics, Neuro Surgery, Nephrology, ENT, Paediatrics etc. The hospital has seen good traction in the transplant segment and has performed 6-10 transplants in Q3FY21. the hospital earned total revenue of around Rs 124 crore till November 2020 and mainly focuses on high end surgeries. The hospital has employed over 98 doctors including in house doctors of which about 80 were consultants, and over 420 nurses and over 102 paramedical technicians.

Industry Analysis
Healthcare has become one of India's largest sector, both in terms of revenue and employment. The Indian healthcare sector is growing at a brisk pace due to its strengthening coverage, services and increasing expenditure by public as well private players. India's competitive advantage lies in its large pool of well-trained medical professionals. India is also cost competitive compared to its peers in Asia and Western countries. The healthcare market is expected to increase three-fold to Rs 8.6 trillion (US$ 133.44 billion) by 2022. Hospitals and diagnostic centers attracted Foreign Direct Investment (FDI) worth US$ 6.72 billion between April 2000 and March 2020, according to the data released by Department for Promotion of Industry and Internal Trade (DPIIT). The Government of India aims to increase healthcare spending to three percent of the Gross Domestic Product (GDP) by 2022.

Liquidity - Stretched
Total Cash and Bank balance as on March 31, 2020 stood at Rs.1.98 crore of which Rs.1.82 crore is held in fixed deposits as margin money. The Company has over-draft facility of Rs. 10.00 crore with Indian Bank for funding working capital requirements. Over, 60% of the payments are made via cash and the remaining is mostly through insurance (both private and govt schemes like Chief Minister's comprehensive health insurance in Tamil Nadu). The Company is highly dependent on the promoter funds to maintain liquidity and fund its losses. The company has not availed interest or principal moratorium for Covid-19.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Criteria for Short Term Instruments
Rating Methodology- Hospitals Sector

About the Company
MGM Healthcare Private Limited (MHPL) is a Chennai-based private limited company providing advanced healthcare services. MHPL was incorporated in September 2016 by Mr. M K Rajagopalan (Chairman & Managing Director) and Dr. Prashant Rajagopalan (Son of Mr. M K Rajagopalan). The hospital commenced operations from July 14, 2019. As of December 2020, MHPL operates a multi-specialty hospital with 360 beds at Chennai having various departments such as Neurology, Interventional Cardiology, Cardiothoracic & Vascular Surgery, Nephrology, Urology, Gastroenterology, Pediatrics etc., equipped with latest health care facilities.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	0.48	94.13
PBILDT	-21.04	-58.99
PAT	-37.32	-96.44
Overall gearing (times)	-ve	-ve
Interest coverage (times)	-ve	-ve

A: Audited;

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2
Complexity level of various instruments rated for this company: Annexure 3
Covenants of rated instrument / facility: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-Long Term	-	-	-	December 2027	322.50	CARE B+; Stable
Fund-based - ST-Bank Overdraft	-	-	-	-	10.00	CARE A4
Non-fund-based - ST-Bank Guarantees	-	-	-	-	20.00	CARE A4

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based-Long Term	LT	322.50	CARE B+; Stable	-	1)CARE B+; Stable (05-Mar-20)	-	-
2.	Fund-based - ST-Bank Overdraft	ST	10.00	CARE A4	-	-	-	-
3.	Non-fund-based - ST-Bank Guarantees	ST	20.00	CARE A4	-	-	-	-

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - ST-Bank Overdraft	Simple
2.	Fund-based-Long Term	Simple
3.	Non-fund-based - ST-Bank Guarantees	Simple

Annexure 4: Covenants of rated facilities: Not Applicable

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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