

Escorts Heart & Super Speciality Hospital Limited

December 24, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Fund-based – ST – Bank facilities – Overdraft [^]	15.00	CARE A4 (SO) [A Four (Structured Obligation)] (Under credit watch with developing implications)	Revised from CARE A3 (SO) [A Three (Structured Obligation)] (Under credit watch with developing implications)
Total Facilities	15.00 (Rs. Fifteen crore only)		

Details of instruments/facilities in Annexure-1

[^] The facility is backed by credit enhancement in the form of unconditional and irrevocable Corporate Guarantee of Fortis Global Healthcare Infrastructure Pte. Ltd. (FGHIPL).

Detailed Rationale & Key Rating Drivers

The revision in rating of the bank facilities of EHSSHL factors in the heightened liquidity risk in RHT Health Trust (RHT, the ultimate holding company) in view of recent Hon'ble Supreme Court's order for maintaining status quo with respect to acquisition of controlling stake by IHH Healthcare Bhd (IHH) in Fortis Healthcare Limited (FHL, the main sponsor and counterparty of RHT). This order is likely to impact RHT's ability to refinance/ repay MTN facility which is due for maturity in January 2019.

The rating continues to be constrained by RHT's under-implementation projects on hold, moderation in its financial risk profile and counter party credit risk emanating from its exposure to FHL.

However, the rating continues to factor in the established presence of RHT in healthcare industry in India, RHT's healthy asset quality with robust operating structure backed by long term Hospital and Medical Services Agreement (HMSA) for its Clinical Establishments (CEs).

The ratings continue to be on credit watch in view of the developments regarding acquisition of RHT's portfolio of clinical establishments held by its subsidiaries by FHL and the possible impact of the same on the credit profile of the company. CARE is monitoring further developments with respect to above mentioned events and would take up review of rating when more clarity emerges in these matters.

Detailed description of the key rating drivers

Key Rating Weaknesses

Increased liquidity risk

The liquidity risk of RHT is high emanating from its higher reliance on refinancing of its long term debt. Owing to high income distribution to unit-holders (at least 90% as per REIT guidelines), moderate operating cash flows, shorter tenor of loan with bullet payment structure, there is dependence on refinancing for debt servicing.

RHT has medium term note (MTN) of SGD 120 million which is due on January 22, 2019. Considering the moderate cash generating ability of RHT, the repayment quantum is significant. Earlier repayment of the same was envisaged from the proceeds of sale of RHT's asset to FHL. The earlier long stop date for the said acquisition was September 30, 2018 which was subsequently extended to December 31, 2018. With the recent order by Hon'ble Supreme Court for maintenance of status quo on IHH's acquisition of controlling stake in FHL has led to heightened liquidity risk of RHT. Going forward, RHT's ability to refinance the said payment/ extend the repayment with existing note-holders shall be rating monitor able.

Moderation in financial risk profile

Financial risk profile of RHT has witnessed moderation in Q2FY19 with respect to profitability and interest cover. PBILDT was lower both on QoQ basis as well as YoY basis in Q2FY19 largely on account of higher overheads (including trust expenses, employee cost) as well as FX loss. As a result, interest cover had also moderated. Overall gearing was 0.65x as on June 30, 2018 (vs 0.57x as on June 30, 2017).

Under-implementation projects on hold

RHT (consolidated) has 4 green-field projects (Ludhiana, Greater Noida, Chennai and Hyderabad) and 4 brownfield projects (expansion in existing operational CEs) for implementation. These projects have been placed on hold due to the proposed disposal of RHT's assets to FHL on February 13, 2018.

The group has strategy of funding majority of project costs out of term debt. However, the project risk is mitigated to an extent as the group has extensive experience of executing hospital projects successfully.

¹ Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Foreign currency risk

RHT and FGHIPL derive the entire revenue in Indian Rupees as the portfolio of hospital assets is located in India. However, the repayment of debt and the distribution of dividends (semi-annually) to unit-holders are made in Singapore dollars, leading to currency risk.

Counter-party credit risk

Majority of the revenue stream (i.e base and variable fee income) is derived from the sole operator of the CEs i.e FHL (rated CARE C/ CARE A4). However, with the reconstitution of the board of FHL recently, the payment track of base fee and variable fee by FHL has shown improving trend.

Key Rating Strengths

Established presence in Indian healthcare industry

RHT is the first business trust listed in Singapore and invests in medical and healthcare assets in Asia, Australasia and other markets. The RHT group has a strong portfolio of clinical establishments spread across India, consisting of 12 CE (owned by RHT's subsidiaries and operated by FHL under HMSA), 4 Greenfield CE and 2 operating hospitals (owned and operated by the RHT group).

Healthy asset quality and robust operating structure

Out of the operational 14 CEs/ hospitals of RHT, 9 of them are NABH or JCI accredited facilities. All the CEs (except the Faridabad unit) have tertiary/ quaternary care facilities. The cash flows are diversified with no CE accounting for more than 16% of total service income for RHT.

Analytical approach: Credit enhancement for EHSSHL is in the form of unconditional and irrevocable corporate guarantee of FGHIPL. As FGHIPL is the main holding company which controls the hospital business of RHT and is 100% held by RHT, the analysis has been done with 'Consolidated' approach of RHT- the ultimate holding company.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[CARE's methodology for service companies](#)

[CARE's methodology for financial ratios \(Non-Financial Sector\)](#)

[Factoring Linkages in Ratings](#)

About the Company (EHSSHL)

EHSSHL, incorporated in 2003, is a company engaged in constructing and operating healthcare assets in India. The company owns 2 clinical establishments (CEs) in India (Mohali & Jaipur) which are operated by FHL through HMSA. EHSSHL is currently held by IHL and FHML in the ratio of 74.46: 25.54.

About RHT and FGHIPL

RHT is a Singapore-listed business trust (BT). Its trustee manager is RHT Health Manager Pte. Ltd in which, FHL is having deemed interest of 27.58%. RHT's 100% subsidiary, FGHIPL, is a holding company with investments in group companies. RHT and FGHIPL on standalone basis do not own any healthcare assets neither have any healthcare operations. Funds are raised at RHT and FGHIPL level via issue of units or debt instruments or loans from Singapore market and are then deployed (as equity capital or debentures or advances) in the SPVs for meeting their CAPEX requirements. FGHIPL earns revenue mainly in the form of interest and dividend income on its interest-bearing debentures and equity investments made in the SPVs. The entire distributable profit is paid back to RHT as dividend.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	495.28	607.84
PBILDT	237.22	338.18
PAT	639.23	76.97
Overall gearing (times)	0.52	0.62
Interest coverage (times)	3.71	3.26

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

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

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - ST-Bank Overdraft	-	-	-	15.00	CARE A4 (SO) (Under Credit watch with Developing Implications)

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - ST-Bank Overdraft	ST	15.00	CARE A4 (SO) (Under Credit watch with Developing Implications)	1)CARE A3 (SO) (Under Credit watch with Developing Implications) (16-Aug-18) 2)CARE A3 (SO) (Under Credit watch with Developing Implications) (15-May-18)	1)CARE A2 (SO) (Under Credit watch with Negative Implications) (06-Mar-18) 2)CARE A1+ (SO) (Under Credit watch with Developing Implications) (24-Nov-17) 3)CARE A1+ (SO) (19-Sep-17)	-	-

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