Gujarmal Modi Hospital and Research Centre for Medical Sciences (Revised)
November 04, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	15.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE A (Single A) and removed from Under Credit watch with Developing Implications; Stable outlook assigned
Total Facilities	15.00 (Rs. Fifteen Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in rating assigned to bank facilities of Gujarmal Modi Hospital and Research Centre for Medical Sciences (GMRCMS) is due to change in analytical approach adopted by CARE Ratings on account of revised criteria adopted by CARE Ratings for rating of debt while taking a combined approach for a group of entities. As per the revised criteria, a listed entity cannot be combined with other listed/non-listed entities to arrive at the ratings for a group of entities/entity on a combined approach & hence they have to be analysed as a separate entity and not combined with other entities of the group.

CARE has changed its analytical approach in the current review while arriving at the ratings of GMHRCMS to standalone approach as against earlier combined view of Max Healthcare (MHC) network of hospitals which included MHIL consolidated financials and the trusts (Devki Devi Foundation, Baljai Medical & Diagnostic Research Centre, Gujarmal Modi Hospital & Research Centre) financials. Change in the analytical approach is purely on account of revised criteria adopted by CARE Ratings for the rating of debt while taking a combined approach for a group of entities.

The rating continues to draws comfort from medical service agreement with Saket City Hospital Pvt Limited (SCHPL), subsidiary of MHIL with 57.29% shareholding. Furthermore, the ratings derive strength from the experienced and resourceful management, team of doctors, significant funding support from MHIL and strong brand equity of Max Healthcare. The ratings also take into cognizance consistent improvement in operational performance, though the scale of operations and profitability continues to remain moderate.

The strengths are partially offset by leveraged capital structure of GMHRCMS, competition from other established players in Delhi and NCR region and exposure to regulatory risks.

The credit watch earlier was on account of the announcement of stake sale of Life Healthcare and divestment of promoter stake in MHIL to Radiant Life Care Private Limited (RLCPL). Post-merger (effective from June 01, 2020) Kohlberg Kravis Roberts & Co. (KKR) through Kayak Investments Holding Pte. Ltd holds around 52% stake while Mr. Abhay Soi holds around 23% stake in MHIL as on Sept 20, 2020. The merger has provided MHIL increased scale and geographical diversification, however, it has also led increase in the leverage of the merged entity.

The removal of credit watch is due to change in analytical approach followed for rating the bank facilities of GMHRCMS on a standalone approach.

Rating Sensitivities

Positive Factors

- Sustained improvement in scale of operations above Rs 350 crore/year and PBILDT margin above 15%
- Sustained improvement in operational performance in terms of ARPOB above Rs. 55,000

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Negative Factors

- Changes in terms & condition of Medical service agreement affecting the support from MHIL
- Sustained deterioration in scale of operations below Rs 225 crore/year and PBILDT margin below 5%

Key Rating Strengths

Experienced and resourceful management

Due to Medical service agreement with SCHPL (Subsidiary of MHIL), GMHRCMS benefits from the expertise of promoter group and management team of MHIL. With the conclusion of the merger, Mr. Abhay Soi and KKR (through Kayak Investments Holding Pte. Ltd) have now become the promoter of MHIL. Mr. Abhay Soi is also Chairman, and Managing Director of MHIL.

Before the acquisition and merger with MHIL, Mr. Soi was the Promoter, Chairman, and Managing Director of RLCPL. He had forayed into healthcare space in 2010 and successfully revamped RLCPL healthcare facilities i.e. Dr BL Kapur Memorial hospital, Delhi & Dr Balabhai Nanavati hospital, Mumbai both of these hospitals have now come under the MHIL umbrella post-merger. He has experience in financial restructuring business and exposure of various sectors like Mining, Financial Services, Textiles, and Specialty Chemicals, etc.

KKR & Co. Inc. (formerly known as Kohlberg Kravis Roberts & Co. and KKR & Co. L.P.) is an American global investment company that manages multiple alternative asset classes, including private equity, energy, infrastructure, real estate, credit, and, through its strategic partners, hedge funds. KKR through Kayak Investments Holding Pte. Ltd holds 52% shareholding in MHIL as on Sept 20, 2020. KKR has invested around Rs.2000 crore in erstwhile Radiant for the acquisition of MHIL.

The board of directors of MHIL includes Mr. U K Sinha, former Securities and Exchange Board of India (SEBI) chairman along with Mr. Micheal Neeb, former President of HCA Healthcare - the largest hospital operator in the United States. They have been appointed as independent directors. Besides, Mr. Sanjay Nayar, Chief Executive Officer (CEO) of KKR (India) is the non-executive director.

Financial and operational linkages with MHIL

Max Smart Super Speciality Hospital (MSSSH), Saket is managed by GMHRCMS. MSSSH is a part of Max Healthcare network of hospital therefore benefits from established brand positioning of Max healthcare. It use the “Max” brand name, benefits from experienced team of doctors associated with MHIL, enjoys various synergies arising out of common finance and operations team, better bargaining power with suppliers and other vendors such as Third Party Administrators (TPAs) for insurance, operational efficiencies owing to industry best practices being adopted by MHIL and higher occupancy given the high brand value of Max in Delhi NCR.

MHIL started its operations in 2001 and has established itself as a leading market player in the Northern India region. After the completion of the merger, MHIL operates 16 facilities in India (including three trusts where it has medical service agreement), offering services in over 32 medical disciplines. Out of the total network, eight hospitals and four medical centers are located in Delhi and the NCR, and the others are located in the cities of Mumbai, Mohali, Bathinda, and Dehradun. The average occupancy has been around 70% over the last couple of years driven by strong brand equity and acceptability of the same among patients

All the hospitals are NABH and ISO accredited and have also received Joint Commission International (JCI) accreditation for two of its hospitals 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.

Consistent improvement in operational performance

Operational parameters of the hospital as indicated by occupancy rate, inpatient-outpatient registrations, average revenue per occupied bed, etc have consistently improved. During FY17-FY20, occupancy has remained around 70% and ARPOB has increased by CAGR of 14% driven by increase in inpatient registration by 7%. In FY20, the increase in operating income by 4% is supported by increase in inpatient registration by 3.32%, the average revenue per occupied bed (ARPOB) by 13.42% to Rs. 47,837 (P.Y: Rs. 42,176) and decline in occupancy to 70.5% (P.Y: 76.5%).

Significant funding support from MHIL which reduces reliance on bank debt

MHIL has in past infused funds in form of unsecured loan to support the operations of GMHRCMS. It has unsecured loan of Rs. 129.95 crore as on March 31, 2020 out of which Rs. 91 crore was infused in FY20 for working capital requirement. GMRCMS has to pay interest charges on the same to MHIL which get accrued and paid depending on cash availability with the company. The funding support from MHIL helps the company reduce its reliance on bank debt which is of Rs. 4.68 crore as on March 31, 2020. But the payments to MIHL in terms of interest charges and medical service fee remains key monitorable.

Key Rating Weakness

Leveraged capital structure

The capital structure of GMHRCMS remains leveraged due to significant outstanding obligation in terms of unsecured loan from MHIL of Rs. 129.95 crore for working capital requirement, refundable performance security deposit from SCHPL of Rs. 214.29 crore payable out of future surplus. GMHRCMS has to pay service fee for medical service agreement, interest on security deposit to SCHPL and interest on unsecured loan to MHIL. It has paid around Rs. 62.76 crore in FY20 which adversely affect the profitability margin, solvency parameters and liquidity buffer available with company. Though these payments are dependent upon availability of cash flows would remain key montiorable.

Exposed to regulatory risk

GMHRCMS operates in a regulated industry which has witnessed continuous regulatory intervention during past couple of years. 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 adverse impact on the GMHRCMS's profitability and thus would remain a key monitorable.

Intense competition from other established players in Delhi and NCR region

The growth in population, increase in lifestyle-related diseases, rising purchasing power of the middle class and higher awareness of chronic illnesses will be the key growth drivers for the sector. Although there is increasing competition in the sector; however, comfort is drawn from the GMHRCMS belonging to Max network of hospitals. Going forward, GMHRCMS'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.

Liquidity analysis: Adequate

GMHRCMS has adequate liquidity supported by free cash and bank balance of Rs. 0.9 crore as on August 31, 2020 against repayment of 0.05 crore in FY21 further supported by very minimal utilization of sanctioned working capital facility of Rs. 15 crore. GMHRCMS has opted for moratorium as per RBI- COVID-19 guidelines.

Analytical approach: Standalone approach factoring linkages with MHIL

A combined approach was being followed earlier in which combined financials of MHC network of hospitals which includes MHIL consolidated financials and the trusts (Devki Devi Foundation, Baljai Medical & Diagnostic Research Centre, Gujarmal Modi Hospital & Research Centre) financials were considered. Now, CARE has changed its analytical approach to standalone basis factoring in linkages with MHIL

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for Services Companies
Rating Methodology: Factoring Linkages in Ratings
CARE's methodology for financial ratios (Non-Financial Sector)
CARE's methodology for Hospitals

About the Company

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 service agreement with Saket City Hospital Pvt Limited (MHIL holds 57.29%) the hospital is run under the Max brand.

Max Healthcare Institute Limited (MHIL) was incorporated in 2001 and operates/ provides medical services to 16 facilities under its umbrella with around 3,400 bed capacity as on September 2020. Out of the total network, eight hospitals and four medical centres are located in Delhi and the NCR and the others are located in Mumbai, Mohali, Bathinda and Dehradun. Through a composite scheme of merger, Radiant Life Care Private Limited's (RLCPL) health care assets (2 hospitals i.e. Dr BL Kapur Memorial Hospital & Dr Balabhai Nanavati Hospital) have merged in MHIL effective from June 01, 2020. Further, MHIL got listed on August 21, 2020.

Brief Financials (Rs. crore) – Standalone	**FY19 (A)**	**FY20 (A)**
Total income	264.99	275.89
PBILDT	16.05	23.88
PAT	-18.50	-9.85
Overall gearing (times)	NM	NM
Interest coverage (times)	0.65	0.89

NM: Not Meaningful

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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 - LT-Cash Credit	-	-	-	15.00	CARE BBB+; Stable

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 - LT-Cash Credit	LT	15.00	CARE BBB+; Stable	-	1)CARE A (Under Credit watch with Developing Implications) (09-Oct-19)	1)CARE A (Under Credit watch with Developing Implications) (03-Jan-19) 2)CARE A (Under Credit watch with Developing Implications) (05-Oct-18)	1)CARE A+ (Under Credit watch with Developing Implications) (14-Dec-17) 2)CARE A+; Stable (06-Oct-17)

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple

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.*

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About CARE Ratings:
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