

MGM Healthcare Private Limited

March 05, 2020

Rating			
Facilities	Amount (Rs. crore)	Rating¹	Rating Action
Long-term Bank Facilities	335.50	CARE B+; Stable (Single B Plus; Outlook: Stable)	Assigned
Total Facilities	335.50 (Rs. Three hundred and thirty five crore and fifty lakh only)		

Details of 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 has a total capacity of 350 beds and construction of the premises was completed by around December 2018. The company reported operating income of Rs.0.48 crore in FY19(refers to the period April 1 to March 31). With higher operating expenses such as employee costs, overheads and higher interest costs, MHPL reported loss after tax of Rs.37.32 crore. During 9MFY20, MHPL reported total income of Rs.50.20 crore.

Highly leveraged capital structure

The company has incurred significant capex of around Rs 365 crore as on March 31, 2019 towards construction of the hospital premises and buying equipment. This was almost entirely debt funded through a term loan of Rs.298 crore and the balance through unsecured loans from the promoter. The networth of the company is at Rs. -46.96 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.

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

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. 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 in recent times such as capping the price of stents.

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. 378 crore and a surplus of Rs. 137 crore in FY18. 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.

Besides, as on March 31, 2019, the promoters have given support in the form of unsecured loans of around Rs. 98 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 350 beds, 200 of which are operational after accounting for beds for ICU care, dialysis etc. The hospital has 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 10 transplants in the final two months of the calendar year 2019. As a result of the focus on high end surgeries, Average Revenue Per Operating Bed (ARPOB) of the hospital was high at around around Rs. 40,000. The company earned Total revenue of around Rs 50 crore in the first 9 months of FY20. As on March 31, 2019, the hospital employed 98 doctors of which 18 are in house doctors and 80 were consultants, 420 nurses and 102 paramedical technicians.

Industry Analysis

Indian health care service industry is expected to grow at a healthy pace on account of likely rise in per capita income, growing health awareness, increase in health insurance penetration coupled with favourable demographic situation, transition in disease profile of the country and fast-growing medical tourism market. The private sector players are well positioned to leverage this opportunity given the low contribution of government spending.

Liquidity - Stretched

Total Cash and Bank balance as on March 31, 2019 stood at Rs.6.85 crore. The Company has over-draft facility of Rs. 10.00 crore with Indian Bank for funding working capital requirements. 60% of the payments are made via cash and the remaining is mostly through insurance (both private and government 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 banker has confirmed that the company has been fully utilizing its Over Draft facility for the 6 months ended December 2019.

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 January 10, 2020, MHPL operates a multi-specialty hospital with 350 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)
Total operating income	0.48
PBILDT	-21.04
PAT	-37.32
Overall gearing (times)	-ve
Interest coverage (times)	-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

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- Term Loan	-	-	December 2027	335.50	CARE B+; 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based-LT- Term Loan	LT	335.50	CARE B+; Stable	-	-	-	-

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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