Max Healthcare Institute Limited

January 03, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	440.38 (enhanced from 344.82)	**CARE A (Single A)Credit watch with developing implications**	**Reaffirmed**
Short term Bank Facilities	0.76	**CARE A1 (A One)Credit watch with developing implications**	**Reaffirmed**
Total	**441.14 (Rs. Four hundred forty one crore and fourteen lac only)**		

Details of instruments/facilities in Annexure-1

CARE has reaffirmed the ratings of MHIL and for arriving at the ratings CARE has taken a view on the 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 & Four Season Foundation) financials. MHC network of hospitals are either owned by MHIL and its subsidiaries or are providing medical services through medical service agreements entered between MHIL and its subsidiaries.
The ratings continue to be on credit watch with developing implications on account of announcement of stake sale of Life Healthcare and further divestment of promoter stake in MHIL. As per the announcement Radiant Life Care Private Limited (Radiant) has also entered into a share purchase agreement with Life Healthcare International Proprietary Limited ("Life Healthcare") for the purchase of 49.7 % of the share capital of MHIL. The remaining shareholding of MHIL will further undergo change under the following phased manner:

I. Max India Limited (MIL) will demerge its non-healthcare businesses (comprising of Max Bupa and Antara Senior Living) into a new wholly owned subsidiary of Max India.
II. Radiant's assets will be demerged into Max Healthcare which will then undertake a reverse merger with MIL to create Merged Max Healthcare entity (combined entity).
III. Post-merger, Max India will get dissolved without being wound up
IV. KKR will also acquire an additional stake of 4.99% in the Merged Entity from Max Promoters, funded primarily from KKR Asian Fund III.
V. Based on the share exchange ratio recommended in the valuation report, the resultant shareholding of the Combined Entity will be 51.9%, 23.2% and 7.0% held by Radiant, Mr. Abhay Soi and Max Promoters respectively, with the balance being held by public and other shareholders.

The Combined Entity will be promoted by Mr. Abhay Soi and co-promoted by KKR. Max India's current promoters ("Max Promoters") will subsequently step down through the process of de-promoterisation after completion of the merger. The transaction is subject to regulatory approvals and other customary closing conditions. The merged entity will continue to use the current brand name Max Healthcare, with appropriate adjustments to its logo.

The ratings were earlier on credit watch as per CARE PR dated October 05, 2018 with developing implications on account of impending stake sale of Life Healthcare of 49% to a new JV partner and likely infusion of equity into MHIL expected to lead to improvement in leverage levels of MHIL. Now further clarity has emerged on the structure of the transaction wherein apart from Life Healthcare stake sale, Max promoters are also selling their part stake in the entity and there will be a process of de-promoterisation of Max promoters (as described above). CARE is still in the process of evaluating the full impact of the events and also the quantum of equity infusion in MHIL, on the credit profile of the company and would take a view on the rating once the exact implication of the said event can be ascertained.

Detailed Rationale & Key Rating Drivers

The ratings reaffirmation continues to derive strength from, established and leading market position, diversification across various specialties, experienced team of doctors, modern infrastructure and the strong brand equity of Max network. Furthermore, the operational parameters of MHC network have consistently improved during past couple of years and have also demonstrated resilience during the current stringent regulatory environment.
The strengths are offset by moderation in PBILDT margin during FY18 on account of increased regulatory supervision in the healthcare sector and the temporary closure of Max Shalimar Bagh hospital over an alleged case of medical

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

negligence. The pressure on the margins led to net loss during FY18 as well as substantial decline in the cash accruals. The increased regulatory supervision is expected to have a sustained negative impact on the margins of the MHC network hospitals going forward. Furthermore, there is an expected increase in debt in the medium term for certain committed debt funded plans which coupled with lower profitability are likely to have an adverse impact on the leverage levels of MHIL in the medium term.

Going forward, decrease in leverage levels on account of higher profitability or infusion of equity would be a key rating sensitivity. The ability to profitably scale up the operations, ramping up of the recently acquired facilities and any debt funded large capex / acquisition beyond planned levels shall also be key rating sensitivities. The final judgment with respect to Shalimar Bagh hospital which has a stay on its license from the Court of Financial Commissioner will be crucial going forward.

Detailed description of the key rating drivers

Key Rating Strengths

Established and leading market position driven by strong brand equity

MHIL started its operations in 2001 and since then has established itself as a leading market player in the Northern India region. All the hospitals operate under the 'Max' name which has become an established brand and enjoys strong brand equity in North India. MHIL operates 14 facilities in North India, offering services in over 32 medical disciplines. Of these, eleven facilities are located in Delhi & NCR and the others in Mohali, Bathinda and Dehradun. The 14 facilities together had 2,378 operational beds as on March 31, 2018 (PY: 2,330) which have an average occupancy of 73%.

Experienced team of doctors and modern infrastructure

The operations of the company are well supported by a team of experienced doctors, nurses and paramedic staffs. The company had around 1850+ doctors, 4750+ nurses and 1000+ consultant physicians on board to service its patients.

Diversification across various specialties and improving channel mix

MHIL derives its revenues from a number of specialties including cardiology, oncology, neurology, orthopedic etc, thus not depending upon any single specialty. Among the various specialties, Oncology, Cardiac, Neuro, Renal have demonstrated healthy growth in last five years. MHIL derived 22.03% (PY:20.90%) of its total FY18 revenue from Institutional/PSU segment which is a low margin business. The company plans to reduce the contribution from this segment and focus more on international business.

Healthy operational parameters with consistent improvement during past couple of years

Operational parameters of the hospital as indicated by occupancy rate, inpatient-outpatient registrations, average revenue per occupied bed, etc have all consistently improved over the five year period FY14-FY18. The number of operational beds on combined basis for MHIL increased from 1,472 in FY14 to 2,378 in FY18. The Average Revenue Per Occupied Bed (ARPOB) increased from ~Rs.33,950 to ~Rs.44,000 for the same period.

The average occupancy rate has remained above 70% during the last five years even though the company has been constantly adding beds each year. This indicates the brand equity of "Max Hospitals" and acceptability of the same among patients.

Moderate financial risk profile

MHIL reported growth of 7% in its total income during FY18 on account of better occupancy rate and ARPOB. MHIL has been continuously increasing its bed capacity/occupancy enabling the consistent growth in revenue. Though, the growth in revenue was not as compared to the one envisaged earlier.

Although MHIL witnessed improvement in its operational parameters such as ARPOB and occupancy levels during FY18, however, the PBILDT margin declined by 300 bps while at net level, MHIL reported loss during FY18 as against PAT margin of 0.97% during FY17.

The profitability margin was impacted due to combination of sustained factors such increased regulatory intervention (such as capping of stent prices and knee implant) and stricter compliance norms along with reversible factors such as closure of Shalimar Bagh facility for 12 days, intermediate shift to institutional business and closure of referral business. Though the impact of reversible factors is expected to reduce, the profitability is expected to remain under pressure going forward in medium term.

MHIL's overall gearing stood at 1.18x (PY: 1.02x) as on March 31, 2018, whereas the interest coverage ratio remained at 1.71x (FY17: 2.11) during FY18.

Key Rating Weakness

Exposed to regulatory risk

MHIL 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 implant and stricter compliance norms have adversely impacted the margin of the company.

Recently acquired hospitals are still in ramp up stage leading to lower profitability

MHIL has acquired few hospitals in past five years. Some of them have ramped up and have already turned profitable. However, a few hospitals such as the ones located in Bhatinda and Dehradun have not yet turned profitable leading to pressure on the MHIL (combined) profitability. Going forward, improvement in profitability of the recently acquired hospitals will be crucial and remains to be seen.

Large planned bed additions in the existing hospitals with debt funding

MHIL plans to add around 700 beds over the period of FY19-FY22 in an organic way. Other than the bed additions, MHIL also plans to acquire remaining stakes in two of the hospital acquired in past couple of years. No further greenfield projects / acquisitions are in the pipeline and the company plans to grow organically going forward. MHIL plans to partly fund the bed expansion and stake purchase through debt which would have an impact on the leverage structure of the company. Going forward, the amount of debt for capex and stake purchase would remain crucial for MHIL's credit profile.

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 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.

Liquidity analysis: The group has working capital facility of Rs.196.50 crore as on September 30, 2018 which is utilized around 80% during past 12 months ending September 30, 2018. The free cash and bank balance stood at Rs.23 crore as on March 31, 2018 and Rs.18 crore as on September 30, 2018.

Analytical approach: 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 & Four Season Foundation) financials. MHC network of hospitals are either owned by MHIL and its subsidiaries or are provided medical services through medical service agreements entered into by MHIL and its subsidiaries.

Following entity's financials are considered for analysis	
Max Healthcare Institute Limited	Devki Devi Foundation
Hometrail Estate Private Limited (HEPL)	Baljai Medical & Diagnostic Research Centre
Hometrail Buildtech Private Limited (HBPL)	Gujarmal Modi Hospital & Research Centre
Alps Hospital Limited (ALPS)	Four Season Foundation
Crosslay Remedies Limited	Saket City Hospitals Private Limited

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)]

About the Company

Max Healthcare Institute Limited (MHIL) was incorporated in 2001 and operates 14 hospitals in North India as on March 31, 2018. Of this, 11 facilities are located in Delhi & NCR and the others in Mohali, Bathinda and Dehradun. MHIL holds 6 hospitals directly under it, 4 hospitals are under various subsidiaries and 4 others are under a trust structure.

Brief Financials (Rs. crore) – Standalone	FY17 (A)	FY18 (A)
Total income	1041.87	1096.88
PBILDT	74.80	48.92
PAT	-5.80	-34.90
Overall gearing (times)	0.24	0.30
Interest coverage (times)	2.13	1.20

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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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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	-	-	Nov 2031	345.38	CARE A (Under Credit watch with Developing Implications)
Fund-based - LT-Working Capital Limits	-	-	-	95.00	CARE A (Under Credit watch with Developing Implications)
Non-fund-based - ST-BG/LC	-	-	-	0.76	CARE A1 (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 - LT-Term Loan	LT	345.38	CARE A (Under Credit watch with Developing Implications)	1)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 (28-Nov-17) 3)CARE A+; Stable (06-Oct-17)	-	-
2.	Fund-based - LT-Working Capital Limits	LT	95.00	CARE A (Under Credit watch with Developing Implications)	1)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 (28-Nov-17) 3)CARE A+; Stable (06-Oct-17)	-	-
3.	Non-fund-based - ST-BG/LC	ST	0.76	CARE A1 (Under Credit watch with Developing Implications)	1)CARE A1 (Under Credit watch with Developing Implications) (05-Oct-18)	1)CARE A1+ (Under Credit watch with Developing Implications) (14-Dec-17) 2)CARE A1+ (28-Nov-17) 3)CARE A1+ (06-Oct-17)	-	-

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