Max Healthcare Institute Limited

October 09, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	428.03	**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	**428.79 (Rs. Four hundred twenty eight crore and seventy nine lac only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has reaffirmed the ratings of Max Healthcare Institute Limited (MHIL) based on 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 reaffirmation continues to derive strength from an established and leading market position, diversification across various specialties, experienced team of doctors, modern infrastructure and the strong brand equity of Max network of hospitals. Furthermore, the operational parameters of MHC network have consistently improved during the past couple of years and have also demonstrated resilience during the current stringent regulatory environment. The ratings also take in cognizance improvement in the financial profile of the group during FY19 and Q1FY20 backed by consistent improvement in the PBILDT margins since Q2FY19.

The strengths are offset by an expected increase in debt in the medium term for certain committed debt funded plans likely to have an adverse impact on the leverage levels of MHIL, exposure to regulatory risk and competition from other established players in Delhi and NCR region.

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.

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 CARE's PR dated January 03, 2019). 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.

Updates on the ongoing merger process

As per the "Outcome of Board Meeting" posted by Max India Limited on BSE on December 24, 2018, the board has approved a composite scheme of amalgamation and arrangement amongst Max India Limited, Max Healthcare Institute Limited, Radiant Life Care Private Limited and a wholly owned subsidiary of MIL (Advaita Allied Health Services Limited). As a part of the scheme Radiant purchased the stake of Life Healthcare (49.70%) in MHIL in June, 2019. The remaining shareholding shall further undergo a change in the following phased manner:

i. 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

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

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. KKR has already extended an advance of Rs.361 crore to the Max Promoters for 4.99% stake.
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% by Radiant, Mr. Abhay Soi and Max Promoters respectively, with the balance being held by public and other shareholders.

The NCLT filing for the merger has been done on September 04, 2019 and the merger is expected to be concluded by Q4FY20.

Current Operations: In August, 2019, there has been change in the leadership including the reconstitution of its Board of Directors to reflect the new dispensation. Mr. Abhay Soi, Chairman and Managing Director of Radiant, has been appointed as the Chairman of MHIL. The Board also includes U K Sinha, former Securities and Exchange Board of India (SEBI) Chairman along with Micheal Neeb, former President of HCA Healthcare – one of the largest hospital operators in the United States as Independent Directors. In addition, Radiant has nominated Mr. Sanjay Nayar, Chief Executive Officer (CEO) of KKR (India) as the non-executive Director. Ms.Tara Vachhani and Mr. Mohit Talwar continue as Max India nominees. In the interim, to manage day to day operations of MHIL, a Management Council (MC), comprising of three senior directors – Mr. Yogesh Sareen (CFO of MHIL), Mr, Mradul Kaushik and Ms. Vandana Pakle has been formed.

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 2,376 operational beds as on March 31, 2019 (PY: 2,378) which have an average occupancy of 74% (P.Y: 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 staff. The company had around 1850+ doctors, 45000+ 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, and is thus not dependent on any single specialty. Among the various specialties, Oncology, Cardiac, Neuro, Renal have demonstrated healthy growth in the last five years. The group also has a well-diversified channel mix which includes cash, TPA & corporates, Institutions, referrals and international business. MHIL derived 22.83% (PY:22.03%) of its total FY19 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 going forward.

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-FY19. The number of operational beds on combined basis for MHIL increased from 1,472 in FY14 to 2,376 in FY19. The Average Revenue Per Occupied Bed (ARPOB) increased from ~Rs.33,950 to ~Rs.45,500 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.

Improvement in financial risk profile during FY19 and Q1FY20

On account of various cost-cutting initiatives and stabilization of operations the income and profitability both have witnessed improvement during FY19 and Q1FY20.

The total income witnessed a marginal growth of 3% during FY19 on account of stable operational performance during the year. Max Group's income and profitability was impacted during Q4FY18 and Q1FY19 on account of a one-time event (Shalimar Bagh hospital closure for 12 days). The group has witnessed high growth during Q4FY19 and Q1FY20 backed by higher ARPOB and occupancy levels during the period.

The group witnessed 51 bps growth in the PBILDT margin during FY19 and thus mostly remained in line with FY18 margins. The Group was impacted during Q4FY18 on account of the event (Shalimar Bagh closure for 12 days) which led to decline in the PBILDT margins for Q4FY18 as well as Q1FY19. However, the group has witnessed continuous improvement in its quarterly profit margins thereafter. The PBILDT margin has improved from 4.7% during Q1FY19 to 10.43% during Q1FY20.

Some of the key areas where MHIL focused on for cost reduction include materials procurement and physician compensation re-modeling.
The overall gearing of Max Group remained moderate at 1.22x (PY: 1.17x) as on March 31, 2019. The overall gearing deteriorated marginally on account of increase in debt (by Rs.21 crore) and decline in net worth by Rs.32 crore on account of losses of FY19. During FY19, MHIL availed term loan of Rs.90 crore for capex purpose.
Other coverage indicators: The interest coverage ratio improved marginally during FY19 to 1.88x (FY18: 1.71x) whereas the total debt to GCA continued to remain high at 11.22x (FY17: 13.62x) as on March 31, 2019.

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 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 group's profitability and thus would remain a key monitorable.

Expected increase in debt in the medium term for certain committed debt funded plans
The group does not plan to undertake any new Green field projects; however would continue increasing its bed capacity going forward (around 200 beds during FY20-22). Furthermore, the group would acquire the remaining stake in the two acquisitions in had done in FY16. The stake purchase will be around Rs.670 crore while capex (including routine capex) for next three years is expected to be around Rs.837 crore. The Group plans to fund the same through debt of Rs.1248 crore (availed over FY20-22) and shareholder loan of Rs.440 crore from Radiant. As on September 15, 2019, Radiant has already infused Rs.140 crore of shareholder loans.

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: Adequate liquidity characterized by sufficient cushion in accruals vis-à-vis repayment obligations of Rs 41.75 crores in FY20, and adequate cash balance of Rs.85 Crore (including FD of Rs.75 crore as on September 15, 2019). Its bank limits are utilized to the extent of 60-70% and has sought enhancement in bank lines.

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	Hometrail Buildtech Private Limited (HBPL)
Alps Hospital Limited (ALPS)	Gujarmal Modi Hospital & Research Centre
Baljai Medical & Diagnostic Research Centre	Four Season Foundation
Crosslay Remedies Limited	Saket City Hospitals Private Limited
Devki Devi Foundation	

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
Max Healthcare Institute Limited (MHIL) was incorporated in 2001 and operates/ provides medical services to 14 hospitals in North India as on March 31, 2019. 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	FY18 (A)	FY19 (A)
Total income	1096.88	1050.21
PBILDT	48.92	71.15
PAT	-34.90	-22.98
Overall gearing (times)	0.30	0.31
Interest coverage (times)	1.20	1.63

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	-	-	Nov 2031	329.62	CARE A (Under Credit watch with Developing Implications)
Fund-based - LT-Working Capital Limits	-	-	-	98.41	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 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	329.62	CARE A (Under Credit watch with Developing Implications)	-	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 (28-Nov-17) 3)CARE A+; Stable (06-Oct-17)	-
2.	Fund-based - LT-Working Capital Limits	LT	98.41	CARE A (Under Credit watch with Developing Implications)	-	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 (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) (03-Jan-19) 2)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)	-

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:
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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