

## Max Healthcare Institute Limited

November 04, 2020

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	428.03	CARE A (Under Credit watch with Developing Implications) (Single A) (Under Credit watch with Developing Implications)	Continues to be on Credit watch with Developing Implications
Short Term Bank Facilities	0.76	CARE A1 (Under Credit watch with Developing Implications) (A One) (Under Credit watch with Developing Implications)	Continues to be on Credit watch with Developing Implications
Total Facilities	428.79 (Rs. Four Hundred Twenty-Eight Crore and Seventy-Nine Lakhs Only)		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

CARE has changed its analytical approach in the current review while arriving at the ratings of Max Healthcare Institute Limited (MHIL). Now, CARE has analyzed MHIL on a consolidated basis as against the 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, and Gujarmal Modi Hospital & Research Centre). Change in the analytical approach is purely on account of revised criteria adopted by CARE Ratings for the rating of debt. 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.

The rating reaffirmation of MHIL continues to derive strength from its resourceful promoter, established and leading market position, diversification across various specialties, experienced team of doctors, modern infrastructure, and the strong brand equity of Max Healthcare. Further, the operational parameters of MHIL have consistently improved during the past couple of years and have also demonstrated resilience during lockdown due to Covid-19 and the current stringent regulatory environment. The ratings also take into cognizance improvement in the financial profile of the MHIL during FY20 backed by consistent improvement in the PBILDT margins.

The strengths are partially 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 the Delhi and NCR region.

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 ratings continue to be on credit watch with developing implications on account of expected equity infusion in the company.

### Key Rating Sensitivity

#### Positive factors

- Increase in operating income above Rs. 3300 crore and PBILDT margins above 20% on a sustained basis.
- Improvement in overall gearing below 1x and Total debt/PBILDT below 2.5x on a sustained basis

#### Negative factors

- Decline in profitability below 12.5% on a sustained basis
- Increase in overall gearing above 1.5x

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

**Conclusion of the merger effective from June 01, 2020**

As per the “Outcome of Board Meeting” posted by Max India Limited on BSE on December 24, 2018, the board had 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 (backed by KKR) purchased the stake of Life Healthcare (49.70%) in MHIL in June, 2019. KKR also acquired an additional stake of 4.99% in the Merged Entity from Max Promoters in September 2020.

Based on the share exchange ratio recommended in the valuation report, the resultant shareholding of the Combined Entity is 51.9%, 23.2% and 7.0% by KKR, Mr. Abhay Soi and Max Promoters respectively, with the balance being held by public and other shareholders.

Post composite scheme, MHIL will become compliant to minimum public shareholding of 25% within a period of one year from the date of listing (Aug 21, 2020) of its equity shares or as prescribed under applicable regulations.

**Key Rating Strengths*****Resourceful promoter group and experienced management team***

With the conclusion of the merger on June 01, 2020; the erstwhile MHIL promoters have been reclassified as public shareholders, and Mr. Abhay Soi and KKR (through Kayak Investments Holding Pte. Ltd) have now become the promoters of MHIL.

Mr. Abhay Soi is the Promoter, Chairman, and Managing Director of MHIL. Before the acquisition and merger with MHIL, Mr. Soi was the Promoter, Chairman, and Managing Director of Radiant Life Care Private Limited (RLCPL). Mr. Soi forayed into healthcare space in 2010 and is credited for successfully revamping RLCPL healthcare facilities i.e. Dr BL Kapur Memorial hospital, Delhi (BLK) & Dr Balabhai Nanavati hospital, Mumbai (Nanavati). Both of these hospitals have now come under the MHIL umbrella post-merger. He has experience in financial restructuring business and exposure of various industries 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.2,000 crore in erstwhile Radiant for the acquisition of MHIL.

The board of directors 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.

***Established and leading market position driven by strong brand equity***

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 MHIL's acceptability among the patients

All the hospitals are National Accreditation Board for Hospitals & Healthcare Providers (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.

***Experienced team of doctors***

The operations of the company are well supported by a team of experienced doctors, nurses, and paramedic staff. The doctors on board are well qualified and have relevant experience. The group (including 3 trusts) has around 2200+ doctors, 5300+ nurses, and 1000+ consultant physicians on board to service its patients as on June 30, 2020.

***Diversification across various specialties and improving channel mix***

MHIL derives its revenues from several specialties including cardiology, oncology, neurology, orthopedic, etc., thus not depending upon any single specialty. Among the various specialties, oncology, cardiac, neurology has demonstrated healthy growth during the last year.

The MHIL also has a well-diversified channel mix which includes cash, TPA & corporates, institutions, referrals, and international business. MHIL derived 23.95% (PY: 22.83%) of its total FY20 revenue from the 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 the past couple of years**

Operational parameters of the hospital as indicated by occupancy rate, average revenue per occupied bed (ARPOB), average length of stay (ALOS), inpatient-outpatient registrations, average revenue per occupied bed etc have consistently improved. The number of operational beds on a consolidated basis for MHIL has increased from 1,256 in FY16 to 1,391 in FY20 which have further increased to 2,258 after the merger with RLCPL as on June 30, 2020. In FY20, occupancy of MHIL stood at 71.5% (PY: 70.2%) and the average revenue per occupied bed (ARPOB) has also increased to Rs. 50,448 (PY: 45,447) driven by growth in IP admissions by 4.5% and OP registrations by 5.2%.

**Improvement in the financial risk profile**

The financial profile continued to improve in terms of income, profitability, and other solvency parameters during FY20. The total income witnessed a growth of 11.8% during FY20 from Rs. 1743 crore in FY19 to Rs.1948 crore in FY20 on account of better operational performance during the year. MHIL also reported a significant improvement in PBILDT margin by 621 bps during FY20 by posting a PBILDT margin of 18.12% (PY: 11.91%) led by various cost-cutting measures. The overall gearing of MHIL also improved to 0.90x as on March 31, 2020 as against 1.45x as on March 31, 2019 along with improvement in the interest coverage ratio during FY20 to 2.31x (FY19: 2.05x) and the total debt to GCA to 5.21x (FY19: 10.06x). During Q1FY21, MHIL has reported revenue of around Rs.400 crore with PBILDT loss of around Rs.20 crore primarily on account of the impact of Covid-19.

**Key Rating Weakness****Exposed to regulatory risk**

MHIL operates in a regulated industry that has witnessed continuous regulatory intervention during the 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 an adverse impact on the group's profitability and thus would remain an important monitorable.

**Expected increase in debt in the medium term for certain committed debt-funded plans**

MHIL does not plan to undertake any new greenfield projects; however, would continue increasing its bed capacity going forward (around 700 beds during FY21-25). MHIL is also in the process to acquire the remaining stake in the two acquisitions it had done in FY16. The stake purchase will be around Rs.586 crore while capex (including routine capex) for the next five years is expected to be around Rs. 2214 crore. MHIL has plans to raise Rs. 1000 cr through a Qualified institutional placement (QIP) which is inter-alia expected to be utilised towards pre-payment of the existing debt and funding of capex. Any further increase in debt above the envisaged level will have an adverse impact on the debt metrics of MHIL and will be a key monitorable.

**Favourable industry outlook however intense competition from other established players**

The population growth, increase in lifestyle-related diseases, the 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: Adequate**

MHIL's liquidity profile is adequate given its healthy cash accruals as against its moderate debt repayment. On a combined entity basis MHIL reported GCA of around Rs.256 crore (MHIL Consol GCA Rs.205 crore + RLCPL GCA Rs.52.32 crore) during FY20 against which the total scheduled debt repayment for FY21 stands at around Rs.67.29 crore. The working capital utilization has also remained comfortable during the last 12 months ending July 2020 at ~ 23%. Besides these, MHIL also has free cash and bank balance of around Rs.356 crore as on August 31, 2020. MHIL has availed moratorium as per RBI COVID-19 guidelines.

**Analytical approach: Consolidated**

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 a consolidated basis on account of revised criteria adopted by CARE ratings for rating of debt. The list of entities consolidated is given below:

Name of Entity	% Ownership	Relation with MHIL as on March 31, 2020
Max Healthcare Institute Limited	-	-
Alps Hospital Limited (ALPS)	100%	Subsidiary
Crosslay Remedies Limited	81.96%	Subsidiary
Hometrail Buildtech Private Limited	100%	Subsidiary
Saket City Hospitals Private Limited	57.29%	Subsidiary
Dr BL Kapur Memorial Hospital*	Trust	Operation & Management Agreement
Dr Balabhai Nanavati Hospital*	Trust	Operation & Management Agreement

\*MHIL (earlier RLCPL) has O& M agreement Dr BL Kapur Memorial Hospital and Dr Balabhai Nanavati Hospital wherein MHIL will operate, manage and provide medical services. As per Ind-AS, the financials of BLK and Nanavati will be consolidated due to presence of control. Both the aforementioned hospitals will be consolidated from Q2FY21 onwards.

#### 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 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) – MHIL Consolidated	FY19 (A)	FY20 (A)
Total income	1742.64	1948.27
PBILDT	207.55	353.11
PAT	-0.19	95.34
Overall gearing (times)	1.45	0.90
Interest coverage (times)	2.05	2.31

**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	-	-	November 2031	330.58	CARE A (Under Credit watch with Developing Implications)
Fund-based - LT-Working Capital Limits	-	-	-	97.45	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 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-Term Loan	LT	330.58	CARE A (Under Credit watch with Developing Implications)	-	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 (28-Nov-17) 3)CARE A+; Stable (06-Oct-17)
2.	Fund-based - LT-Working Capital Limits	LT	97.45	CARE A (Under Credit watch with Developing Implications)	-	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 (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) (09-Oct-19)	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)

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - LT-Working Capital Limits	Simple
3.	Non-fund-based - ST-BG/LC	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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto: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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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**