Max Healthcare Institute Limited

December 14, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	344.82	**CARE A+ (Single A Plus) (Credit watch with developing implications)**	**Placed on credit watch with developing implications**
Short term Bank Facilities	0.76	**CARE A1+ (A One Plus) (Credit watch with developing implications)**	**Placed on credit watch with developing implications**
Total	**345.58 (Rs. Three hundred and forty five crore and fifty eight lacs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

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 assigned to the bank facilities of Max Healthcare Institute Limited (MHIL) have been placed on credit watch with developing implication following cancellation of licence of Max Hospital, Shalimar Bagh (one of the 14 hospital under Max umbrella) by the Directorate General of Health Services (DGHS) of the Delhi government's heath department for alleged medical negligence. Subsequently, MHIL has filed an appeal against the order. CARE is in the process of evaluating the impact of the event 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 description of the key rating drivers

Key Rating Strengths

Resourceful promoter group and experienced management team

Max Healthcare Institute Limited (MHIL) is a JV between Max India Limited (MIL) and Life Healthcare International (Proprietary) Limited wherein each partner holds equal share of 49.70% as on August 31, 2017. Max India Limited provides healthcare & allied services and operates the Healthcare Business (through MHIL), Health Insurance (through Max Bupa Health Insurance Company Limited) and Senior Living (through Antara Senior Living Limited). On a consolidated basis, MIL reported a total income of Rs.1,454 crore and net worth of Rs.1,390 crore as March 31, 2017. Life Healthcare is one of the leading private hospital operators in South Africa which owns and operates 56 hospitals with 7665 beds and a support base of over 2 700 doctors and specialists. Life Healthcare reported total income of Rs.8283 crore during FY17 and net worth of Rs.3,400 crore as on March 31, 2017.

Regular fund infusion by the JV partners in past

As on August 31, 2017 the two JV partners MIL and Life Healthcare held 49.70% share each in MHIL. During the last three years (FY15-FY17) the JV Partners have brought in equity capital of around Rs.600 crore to fund the acquisitions (MHIL acquired 2 hospitals in FY16) and capex purposes.

Established and leading market position driven by strong brand equity

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

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 hospitals together have a large capacity of 2,384 beds as on March 31, 2017 which have an average occupancy of 72%.

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 1700+ doctors, 4400+ nurses and 950+ 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 20.90% of its total FY17 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 FY13-FY17. The number of operational beds on combined basis for MHIL increased from 1,302 in FY13 to 2,384 in FY17. The Average Revenue Per Occupied Bed (ARPOB) increased from ~Rs.33,250 to ~Rs.41,200 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.

Comfortable financial risk profile

MHIL has a comfortable financial risk profile marked by consistently improving total income and profitability margins during FY15-FY17. The financial profile is further marked by moderate overall gearing during the period. MHIL has reported a CAGR of 21.65% in its total income during FY14-FY17. During FY17, the company reported growth of 17% in its total income supported by increased number of beds and occupancy rate. In terms of profitability, MHIL has been continuously reporting growth in its PBILDT margin. The PBILDT margin has increased from 10.09% in FY15 to 11.43% in FY17. Though, the PAT margin has remained moderate and stood at 0.98% during FY17 on account of high interest outgo.

MHIL overall gearing stood at 1.02x (PY: 1.02x) as on March 31, 2017, whereas the interest coverage ratio remained at 2.11x (FY16: 2.15) during FY17.

Stabilization of majority of units expected to drive the profitability in future

Over the past couple of years, majority of MHIL's units have seasoned and their performance have consistently improved during the period FY14-FY17. Units which were opened during last five years and were in losses have also turned positive or the losses are negligible in terms of PBILDT. Going forward improvement in the profitability of these hospitals would be critical as they are expected to drive the overall profitability in future.

No major planned capital expenditure plans after FY17

MHIL has an existing capacity of 2,384 beds and the company has adequate infrastructure in place to increase the bed capacity to approx 5000 plus beds. MHIL plans to add around 900 beds over the period of FY18-FY22 in an organic way. No further Greenfield projects or acquisitions are in the pipeline and the company plans to grow organically going forward.

Key Rating Weakness

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.

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. There has been a continuous improvement in the operational performance of these hospitals and the losses have come down substantially by FY17.

Large planned bed additions in the existing hospitals with part debt funding

MHIL plans to add around 900 beds over the period of FY18-FY22 in an organic way. No further Greenfield projects or acquisitions are in the pipeline and the company plans to grow organically going forward. MHIL plans to partly fund the bed expansion through debt which would have impact on the leverage structure of the company. Going forward, the amount of debt for the bed addition would remain crucial for MHIL's credit profile.

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.

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 June 15, 2017. 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) – Combined*	FY16	FY17
Total operating income	2098	2454
PBILDT	215	281
PAT	10	24
Overall gearing (times)	1.02	1.02
Interest coverage (times)	2.15	2.11

*Audited financials of the entities have been combined as mentioned in the analytical approach.

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	-	-	November 2031	269.82	CARE A+ (Under Credit watch with Developing Implications)
Fund-based - LT-Working Capital Limits	-	-	-	75.00	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	269.82	CARE A+ (Under Credit watch with Developing Implications)	1)CARE A+; Stable (28-Nov-17) 2)CARE A+; Stable (06-Oct-17)	-	-	-
2.	Fund-based - LT-Working Capital Limits	LT	75.00	CARE A+ (Under Credit watch with Developing Implications)	1)CARE A+; Stable (28-Nov-17) 2)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+ (28-Nov-17) 2)CARE A1+ (06-Oct-17)	-	-	-

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