Paras Healthcare (Ranchi) Private Limited

September 03, 2020

Ratings

Facilities	Amount (Rs. Crore)	Rating[1]	Rating Action
Long term Bank Facilities @	38.40 **(Rupees Thirty Eight Crore and Forty Lakh Only)**	**CARE BBB+ (CE); Stable [Triple B Plus (Credit Enhancement); Outlook: Stable]**	**Assigned**

Details of instruments/facilities in Annexure-1

@ The above rating is backed by credit enhancement in the form of unconditional, irrevocable and continuing corporate guarantee from Paras Healthcare Private Limited (PHPL; rated: CAREA BBB+; Stable/ CARE A2).

Unsupported Rating [2]	**CARE BB (Double B)**

Note: Unsupported rating do not factor in the explicit credit enhancement

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Paras Healthcare (Ranchi) Private Limited (PHRPL) is based on the credit enhancement in the form of an unconditional, irrevocable and continuing corporate guarantee extended by Paras Healthcare Private Limited (PHPL; rated: CARE BBB+; Stable/ CARE A2).

The ratings of PHPL continue to derive strength from its experienced and qualified management team with proven track record of over a decade in the healthcare industry, its association with a team of reputed doctors and strong operational performance of its flagship hospitals in Gurgaon (Haryana) & Patna (Bihar) which have strong brand image as multi-specialty hospitals having state-of-the-art medical facilities/equipments. The ratings also continue to factor in PHPL's moderate financial risk profile marked by growing scale of operation, moderate operating profitability and debt coverage indicators, adequate liquidity and positive long term outlook for the healthcare sector in India; albeit there are short-term to mid-term challenges due to outbreak of Covid-19 pandemic. The ratings also take cognizance of PHPL's consolidated financial performance during FY20 (Provisional; FY; refers to period April 1 to March 31) which largely remained on envisaged lines.

The ratings, however, continue to be constrained on account of loss-incurring operations of PHPL's Darbhanga (Bihar) and Panchkula (mother-child care hospital, Haryana) hospitals coupled with stabilization and inherent gestation risks associated with its ongoing aggressive expansion plans as well as with the newly commissioned multi-specialty hospitals at Panchkula (Haryana), Udaipur (Rajasthan) and Ranchi (Jharkhand) in light of challenges pertaining to attracting & retaining quality doctors; as along with intense competition from other established organized and unorganized regional players in those regions. The ratings also continue to be constrained on account of its leveraged capital structure and restricted free cash flows due to ongoing/ proposed capex plans.

Rating Sensitivities (for PHPL)

Positive Factors

- Timely completion of its ongoing projects within envisaged cost parameters and early stabilization of the operations of the new hospitals thereby resulting in significant growth in its TOI to more than Rs.750 crore and diversification of its revenue along with sustained improvement in its PBILDT margin to more than 15% with most hospitals becoming self-sustainable.

Negative Factors

- Weakening of PBILDT margin below 7% on sustained basis
- Continued debt-funded expansion adversely impacting its capital structure, debt coverage indicators and free cash flow

Detailed Rationale & Key Rating Drivers (PHRPL - Unsupported Rating)

The unsupported ratings of PHRPL are constrained on account of the execution and stabilization risks associated with its debt-funded on-going green-field project, inherent gestation risk, challenges pertaining to attracting & retaining quality doctors & medical professionals along with its presence in the fragmented and competitive healthcare industry.

The aforesaid weaknesses are partially offset by its parentage of PHPL which has more than one decade of experience in operating and managing hospitals at various locations, infusion of unsecured loans in the company by PHPL and positive long-term outlook for the healthcare sector in India.

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

[2] *As stipulated vide SEBI circular no SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019*

Detailed description of the key rating drivers of the guarantor, PHPL

Key Rating Strengths

Experienced and qualified management team with a proven track record of over a decade: Dr. Dharminder Nagar, Managing Director of PHPL, has an experience of over 20 years in the healthcare industry. He graduated as a doctor from Mysore University in 1995 and possesses M.Phil in Hospital and Health System Management from Birla Institute of Technology and Science, Pilani. He has also undertaken an Executive Management Program in Healthcare delivery from Harvard Business School and holds an Advanced Diploma in Healthcare Management and Health Systems Administration from Imperial College, London. He is ably supported by an experienced team which assists him in the day-to-day operations as well as strategic decisions.

Established operations as a multi-specialty hospital with strong brand image*:* PHPL commenced operations of its first hospital in Gurgaon in 2006 and then gradually expanded its operations to other regions. Currently, PHPL operates 6 multi-super specialty hospitals and one mother-child care hospital. Out of these seven facilities, three in Haryana, two in Bihar, one in Rajasthan and one in Jharkhand, operate under the brand name of 'Paras'. Gurgaon hospital is owned by PHPL, whereas it operates other hospitals on lease arrangements with the lessors. The lease agreements are for a long tenure of around 20-35 years. The hospitals are equipped with state-of-the-art and high-end medical equipment with latest technology. PHPL offers a wide range of medical and surgical care in almost all major therapeutic segments (more than 55 specialties). PHPL earned major revenue from its Orthopedics & join replacement (~14% of total gross revenue), Neurosurgery (12%) and Cardiology (12%) segments which collectively contributed 38% of its gross revenue during FY19 while the balance was from other segments including Cancer Care, General & Laparoscopic surgery, Neurology, Nephrology, Gastroenterology & GI surgery and Urology among others.

Strong operational performance of its 2 established hospitals i.e. Gurgaon & Patna: Paras Hospital, Gurgaon has operational track record of around 14 years, while Paras HRMI Hospital, Patna has a track record of around 7 years. Over the last three years ended FY20, the occupancy level at the Gurgaon hospital was in the range of 70-75% whereas the occupancy level of Patna hospital remained in the range of 75-80%. Collectively, the Gurgaon and Patna hospitals contributed around 83% of the gross revenue of PHPL during FY20.

Experienced team of doctors supported by well-equipped medical equipment: PHPL has an experienced team of around 2,500 employees including Doctors, Nursing and other support staff. The promoters have also ensured availability of renowned medical practitioners across multiple therapeutic segments which have resulted in gradual increase in occupancy as well as built their reputation in the respective segments. Reputed doctors like Padmashree Dr. V.S. Mehta, has been associated with PHPL for past 13 years and is serving as the director of Paras Institute of Neurosciences. Padmashree Dr. Alka Kriplani, (a Dr. B.C. Roy National awardee) is also associated with PHPL and heads the Gynecology, Obstetrics and Antiretroviral therapy (ART) department. Further, PHPL has invested consistently in upgradation and renewal of medical equipment to support their activities. In past, PHPL has successfully completed many complex surgeries in various specialties. PHPL performs more than 1,000 complex neurosurgeries, around 3000 cardiac surgeries, around 33,000 dialysis procedures and around 750 joint replacement surgeries on an annual basis.

Growing scale of operation with moderate operating profitability and debt coverage indicators: Total operating income (TOI) of PHPL grew by 17% on y-o-y basis and stood at Rs.600 crore during FY20 (Provisional) as against Rs.513 crore during FY19 (Audited) largely on account of the revenue contribution from its recently commissioned multi-specialty hospitals in Panchkula and Udaipur. The operating profitability margin declined by 540 bps and stood moderate at 8.17% in FY20 as compared with 13.57% in FY19 on account of higher losses reported by its newly commissioned hospitals at Panchkula, Udaipur & Ranchi. Hospital business requires a long gestation period to achieve a cash break-even, on account of their high capital intensity as well as operating leverage, which makes high occupancy at envisaged rates crucial for operating a hospital profitably and generate adequate returns on the capital employed. Due to significant proportion of nascent stage hospitals in PHPL's portfolio there has been moderation in its financial performance during FY20 (Provisional) as compared with FY19 (Audited). However, the financial performance during FY20 (Provisional) largely remained on envisaged lines in terms of total operating income, operating profitability and gross cash accruals (GCA). The GCA of the company stood at Rs.39.39 crore during FY20 (Provisional). Further, debt coverage indicators of the company also remained at moderate level marked by PBILDT interest coverage of 3.70 times and Total debt to GCA (debt net of liquid investments) stood moderate at 4.90x in FY20.

Positive long term outlook for the healthcare sector in India: CARE expects healthcare services in India to grow at healthy rate on account of likely rise in per capital income and health insurance markets coupled with favourable demography situation and a transition in disease profile of the country. Further, recently launched government program under Ayushman Bharat - Pradhan Mantri Jan Arogya Yojana with Rs.64,000 crore sum of allocation under Union Budget 2019-20 should augur well for growth of the healthcare sector.

Liquidity: Adequate

Hospital business requires low working capital which is also reflected in PHPL's negative working capital cycle, as sizeable revenue is on cash payment basis or on a fixed credit from insurance providers (TPA agents). PHPL's liquidity remained healthy marked by cash and liquid investment of Rs.163 crore as on March 31, 2020 (largely pertaining to funds received from PE, pending its deployment in capex/acquisition). Furthermore, liquidity of PHPL is expected to remain adequate backed by cushion available in new term loans in form of moratorium period of around 21-24 months. Hence, in the near term, the company has relatively low debt repayment obligation of Rs.14-Rs.15 crore each in FY21 and FY22. Moreover, PHPL has not applied for nor availed any moratorium on repayment of instalments and interest due on its term debt and working capital limits for the period March-August 2020 which also indicates its adequate liquidity.

Key Rating Weaknesses

Large size debt funded expansion plans: PHPL has plans to acquire two existing hospitals at Faridabad namely QRG Medicare Ltd. (QRG Medicare; 300 beds capacity) and QRG Central Hospital and Research Centre Limited (QRG Central; 125 beds capacity). As per the management of PHPL, the approximate cost of the acquisition is expected to be around Rs.360 crore, out of which Rs.260 crore would be required to be paid up-front and remaining Rs.100 crore in phased manner over the next three years along with interest of 10% p.a. Earlier, the management had expected that the acquisition process would be completed in the beginning of FY21. However, due to Covid-19, the same got delayed and might be completed in Q3FY21. Moreover, due to Covi-19, there are uncertainties and the progress on capex/ acquisition depends upon the normalcy of operations. As per the present plans, the upfront payment of Rs.260 crore is expected to be funded through a term loan of Rs.160 crore and the balance from available liquid investments. The phase-wise payments over the next three years along with interest are expected to be met through a mix of debt and internal accruals/available liquid funds. During FY19, QRG Medicare earned a total operating income of Rs.104.69 crore along with operating loss of Rs.17.60 crore whereas QRG Central earned a total operating income of Rs.59.15 crore with operating loss of Rs.0.16 crore. The financial performance of both the entities remained weak due to their high operational costs. The management of PHPL expects to rationalize the cost and other overheads and plans to turnaround these two hospitals within period of 12-18 months. Large size expansion plans are expected to restrict free cash flows of the company.

On-going green-field projects at Ranchi, Jharkhand under the concession agreement with Heavy Engineering Corporation Limited (HEC): PHPL has entered into a concession agreement with HEC for the operations and management of 300 bed hospital at Ranchi, Jharkhand including the existing 50 bed hospital (commenced operation from November 2019) along with expansion of another 250 bed capacity on adjacent land provided by HEC, through its subsidiary i.e. PHRPL for a period of 35 years based on lease arrangement with HEC. The cost of the project is expected to remain at around Rs.74 crore which is being funded through term loan of Rs.42 crore and the remaining through internal accrual and available liquid funds. The said term loan is already sanctioned and has a long tenor i.e. 9 year and 9 months. As on June 30, 2020, the company has incurred cost of ~ Rs.17 crore towards the aforesaid project which was entirely funded through internal accruals. Further, the remaining capex will be incurred over a period of next two years i.e. FY21 and FY22. Timely completion of its various on-going projects/acquisitions within envisaged cost parameters and realization of envisaged benefits thereof would be extremely crucial from credit perspective.

Leveraged capital structure and moderate debt coverage indicators: During FY17, the company had raised equity capital by way of compulsory convertible preference shares (CCPSs) from private equity (PE) firm. The CCPSs were converted into equity capital in September 2018. As per the shareholder's agreement and the terms of the PE, there is a buyback obligation on the company to purchase shares held by PE firm at a fair market value after the expiry of 63 months from July 14, 2017. Earlier, under the I-GAAP accounting, the company had reported CCPSs as shareholder's fund. However, post adoption of IND-AS, the company has now measured value of the equity capital held by PE at fair value and reclassified major portion of value of shares under liability at a fair market value. This treatment of equity shares held by PE was largely due to exit option available with the investor and buyback obligations on the company. The gain on fair valuation of this equity capital has been reported under other income in profit & loss statement. Due to the collective effect of these changes, PHPL's outstanding debt has increased substantially and led to reduction in its tangible net worth. As on March 31, 2020 (Provisional), PHPL's total debt stood at Rs.356 crore including term loan of Rs.87 crore, working capital borrowing of Rs.38 crore and Rs.231 crore (approximate) of financial liability, as a component of equity share held by the PE firm. The capital structure of the company continued to remain leveraged marked by overall gearing of 2.85 times as on March 31, 2020. However, the company had cash and liquid investment (largely in FDs) of Rs.163 crore as on March 31, 2020 translating into net debt of Rs.193 crore and a overall gearing of 1.54x times (on net debt basis) as on March 31, 2020.

Challenges of attracting and retaining quality medical professionals: Undertaking new hospital project and expanding existing facilities requires adequate availability of trained doctors and medical personnel. Further, probable loss of the services of any senior medical personnel may seriously impair the company's ability to continue to manage and expand its operations due to highly skill driven nature of medical services. However, given the increasing competition and scarcity of quality medical specialists, the ability of the company to retain its current medical fraternity would be a key differentiator. PHPL strategically selects the location of its expansion projects in the regions which have existing medical college so as to attract doctors and medical professionals from the same region.

Fragmented nature of healthcare industry leading to increasing competition: The healthcare sector is highly fragmented with few large players in the organised sector and numerous small players in the unorganised sector leading to high level of competition in the business. Thus, differentiating factors like range of services offered, quality of service, pedigree of doctors, success rate in treatment of complex/critical diseases, etc will be crucial in order to attract patients and increase occupancy.

***Impact of Covid-19 on healthcare sector*:** Hospital earns a significant amount of its revenue from two segments i.e. Inpatient Department (IPD) and Outpatient Department (OPD). With the outbreak of Covid-19; the number of patients in OPD has gone down significantly owing to the nationwide lockdown. The OPD volumes have also been adversely impacted due to the reluctance of people at large to visit hospitals due to fear of getting infected from other patients. The IPD segment also witnessed a significant decline in the occupancy levels due to postponement of elective and non-essential surgeries. CARE Ratings expects that hospitals are expected to operate in the range of 30-40% occupancy levels for H1FY21. Nonetheless, hospitals may witness an uptick in the occupancy levels by H2FY21 once the incidence of Covid-19 cases subsides. Around 50-60% of hospital costs are fixed in nature which primarily includes doctor’s remuneration and salaries for allied healthcare workers including nursing staff. Another significant cost that the companies incur is the rental expense. Hospitals with large rental expenses are surely expected to feel pressure on their margins unless they can re-negotiate or defer the rental for the next couple of quarters. With lower income and high fixed expenses, most hospitals are expected to witness pressure on their profitability and cash accruals. The impact of Covid-19 on the corporate hospital sector is negative though it may not be prolonged. As medical treatments cannot be deferred for long, occupancy levels will witness a rise gradually over a period of next couple of quarters. CARE Ratings believes the fundamentals of the sector to remain intact and continue to grow backed by an increase in demand for modern healthcare facilities, a rise in awareness about diseases, health consciousness among people, increase in per capita income, changing lifestyle, transition in disease profile, etc.

Analytical Approach
Credit Enhancement (CE) rating: Assessment of the consolidated financial of the guarantor, PHPL; CARE has analyzed the credit profile of PHRPL after considering credit enhancement in the form of unconditional, irrevocable, and continuing corporate guarantee of PHPL for the rated bank facilities of PHRPL.
Unsupported rating: Standalone while factoring managerial, operational and financial linkages with the parent company, PHPL.

Applicable Criteria:
Criteria on assigning outlook and credit watch to Credit Ratings
Criteria on rating credit enhancement debt
CARE’s Policy on Default Recognition
Rating Methodology - Hospital
Financial Ratios- Non Financial Sector
Rating Methodology – Consolidation and factoring linkages in rating
Liquidity Analysis of Non-Financial Sector Entities

About the company, PHRPL
Incorporated on December 29, 2017, PHRPL is promoted by PHPL. PHRPL has entered into 35 years of concession agreement with HEC (a Govt. of India undertaking headquartered at Ranchi) for operation and management of its existing 50 bed hospital along with expansion of the existing capacity by another 250 beds on adjacent land provided by HEC at Ranchi, Jharkhand on design, build, finance, operate and transfer (DBFOT) basis.
Brief Financials of PHRPL

Brief Financials – Standalone (Rs. Crore)	FY18 (Aud.)	FY19 (Aud.)	FY20 (Prov.)
	Ind-As	Ind-As	Ind-GAAP
Total operating income	0.00	0.00	0.69
PBILDT	(0.02)	(0.02)	(3.96)
PAT	(0.02)	(0.02)	(5.17)
Overall gearing (times)	NM	NM	NM
Interest coverage (times)	NM	NM	NM

NM: Not meaningful

About the Guarantor, PHPL

PHPL was promoted by Dr. Dharminder Nagar in 2006 and it presently operates seven hospitals in North and East India with a total inventory of 1,225 beds. These include six multi-super speciality hospitals viz. Paras Hospital Gurgaon - 250 beds, Paras HMRI Hospital, Patna - 350 beds, Paras Global Hospital, Darbhanga - 100 beds, Paras Hospital, Panchkula - 225 beds, Paras HEC Hospital, Ranchi - 50 beds and Paras JK Hospital, Udaipur - 200 beds along with a mother- child care hospital viz., Paras Bliss, Panchkula - 50 beds. As on September 30, 2019, PHPL had total 815 operational beds. The hospitals at Gurgaon and Patna are accredited by NABH (National Accreditation Board for Hospitals & Healthcare Providers) and the lab and blood bank facilities at Gurgaon are accredited by NABL (National Accreditation Board for Testing and Calibration Laboratories).

In July 2017, Creador, a Southeast-Asia based and India focused private equity (PE) firm invested Rs.260 crore (through Commelina Ltd., its investment vehicle) by subscribing 62,245 equity share along with 10,22,182, 0.01% Series A compulsorily convertible preference shares (CCPS). These CCPS were then converted into ordinary equity shares in September 2018. Post this conversion, as on March 31, 2019, Commelina Ltd. held 24.68% equity stake in PHPL.

Brief Consolidated Financials of PHPL

Brief Financials – Consolidated (Rs. Crore)	FY18 (Aud.)	FY19 (Aud.)	FY20 (Prov.)
	Ind-As	Ind-As	Ind-GAAP
Total operating income	470.44	513.04	600.46
PBILDT	58.72	69.62	49.07
PAT	38.65	30.04	1.10
Overall gearing (times)	3.54	2.84	2.85
Interest coverage (times)	4.85	6.76	3.70

Note: The provisional financial results for the period ended March 31, 2020 are as per I-GAAP. Since, the audit procedure is under-way Ind-As accounts for FY20 is not available.

As per the consolidated Q1FY21 (un-audited) results, PHPL earned a revenue of Rs.109 crore with loss of Rs.10 crore at PBILDT level; as per I-GAAP.

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-Cash Credit	-	-	-	5.00	CARE BBB+ (CE); Stable
Fund-based - LT-Term Loan	-	-	March 2029	33.40	CARE BBB+ (CE); Stable
Un Supported Rating (Long Term)	-	-	-	-	CARE BB

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-Cash Credit	LT	5.00	CARE BBB+ (CE); Stable	-	-	-	-
2.	Fund-based - LT-Term Loan	LT	33.40	CARE BBB+ (CE); Stable	-	-	-	-
3.	Un Supported Rating (Long Term)	LT	-	CARE BB				

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
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