

Wockhardt Hospitals Limited

February 19, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Short term Bank Facilities	50.00	CARE A4+ (A Four Plus)	Reaffirmed
Total Facilities	50.00 (Rs. Fifty crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating reaffirmed to the bank facilities of Wockhardt Hospitals Limited (WHL) continue to derive strength from the experience of the promoters and track record of the company in managing chain of single/multi-specialty hospitals along with large variety of healthcare services along with favorable locations and continuous support from the promoters/group entities by way of infusion of funds to support operational needs, capex requirements and long term loan obligations. Furthermore, Wockhardt Limited (flagship company of the group) and WHL, both, share a common name "Wockhardt" and represent the group's presence in the pharmaceutical business. However, the rating strength is tempered by subdued operational performance, on the back of lower occupancy levels across its several hospitals coupled with stabilization risk associated with recently commissioned hospitals, resulting into continued losses. The rating is further constrained by the capital intensive and competitive nature of healthcare industry along with challenges pertaining to attracting and retaining quality doctors and medical professionals.

Rating Sensitivities

Positive Factors

- Improvement in occupancy levels resulting in company reporting profits at PBILDT and PAT level on sustained basis

Negative Factors

- Reduction in support from promoters resulting in increased reliance on external debt

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters

Wockhardt group belongs to Dr Habil F Khorakiwala led Khorakiwala family which has an established track record of over five decades in pharmaceutical sector with global presence across various therapeutic segments. The group is looked after by Mr Habil F Khorakiwala (Chairman), his daughter Ms. Zahabiya Khorakiwala (Managing Director of Wockhardt Hospitals Limited) and sons Dr Murtaza Khorakiwala (Managing Director of Wockhardt Limited) and Dr Huzaifa Khorakiwala. The board is supported by professionals with adequate experience in their respective fields.

The promoters of the company have been infusing funds over the past few years in the form of 6% redeemable preference shares and optionally convertible debentures (OCDs) to fund the losses, capex as well as repay long term loans (medical equipment loans). Over the past few years the promoters have infused Rs.148 crore during FY17-FY19 (Rs.63 crore in FY19, Rs.32 crores in FY18 & Rs.53 crore in FY17) in the company. As WHL is yet to post cash profits, it is completely dependent on fund infusion by the promoters. Also, owing to long gestation period of major hospitals (South Mumbai and Mira Road), the promoters are expected to infuse funds in near to medium term.

Established operations as a single/multi-specialty hospital: WHL provides specialized healthcare and surgical solutions to the patients with 24-hours specialists available for the hospital. The facilities provided are technologically advanced in order to create convenience for their patients. They have also entered into a strategic alliance with Partners Medical Association International in Boston, USA. This exclusive association enables access to Harvard's expertise and clinical acumen in the areas of medical innovation and training.

Strong presence in Western India albeit stabilisation risk associated with its recently commissioned hospitals: WHL manages a chain of six hospitals under the name of 'Wockhardt Hospitals' located across Western India, i.e. two each in Mumbai & Nagpur & one each in Nasik & Rajkot. The hospitals located at Mumbai (429 beds), Nagpur (177 beds) have been under operation since July 2004 & October 2004 respectively. The other two hospitals are in Nasik (170 beds) & Rajkot (177 beds).

¹ Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Key Rating Weaknesses

Flat growth in revenues with low occupancy levels resulting into continued operational losses: WHL's TOI has been deteriorating. Also, the company continued to incur losses owing to lower occupancy rates

Moderate capital structure albeit weak debt coverage ratios: Capital structure continues to be moderate and marginally improved to 0.62x as on March 31, 2019 vis-à-vis 0.73x as on March 31, 2018

Capital intensive nature of industry: The Hospital industry is a capital intensive industry with a long gestation period. Generally, the payback period (PBP) for a new hospital is in the range of 5-6 years due to lower occupancy rate in the initial phase of operations. Further, the maintenance capex required for the hospital industry also remains high.

Intensely competitive industry: The healthcare industry is highly competitive with a large number of established organized players and their growing network of hospitals. The competition is expected to intensify with the expected entry of public private partnerships in this segment. However, WHL has empanelled quality doctors and set up state of the art facilities to combat competition.

Dependence on highly reputed doctors & professionals: The promoters have also ensured that renowned medical practitioners are associated with the hospital which will result in gradual increase in occupancy and augment the income in the coming years. However, WHL is highly dependent on the scarcely available doctors and medical practitioners of repute which is inherent to the nature of business. Based on increasing competition and the scarcity of specialists, the ability of the company to have the distinguished and reputed doctors as consultants and surgeon would be a key differentiator

Liquidity: Stretched – The Company has been incurring cash losses and is dependent on promoter support to fund its operations. The company's current ratio is low at 0.74x as on March 31st 2019. The cash and bank balances as on March 31, 2019 is at Rs.12.13 crore during FY19 vis-à-vis Rs.22.25 crore during FY18.

Analytical approach: Standalone

Applicable Criteria

Rating methodology - Hospitals

Rating Methodology-Consolidation and Factoring Linkages in Ratings

CARE's Policy on Default Recognition

Criteria for Short Term Instruments

Financial ratios – Non-Financial Sector

About the Company

Incorporated in 1991, Wockhardt Hospitals Limited (WHL), formerly known as First Hospitals & Heart Institute Limited, is promoted by Dr Habil Khorakiwala, Chairman, Wockhardt Group. WHL is a part of Wockhardt group of companies which has an established presence in the pharmaceutical sector through its flagship company i.e. 'Wockhardt Limited' (WL, rated 'CARE BBB-; Negative/CARE A3') which is engaged in manufacturing and marketing of pharmaceuticals, bio-pharmaceutical formulations, and active pharmaceutical ingredients (APIs) and Vaccines.

As on March 31, 2019, WHL is a subsidiary of Dartmour Holdings Private Limited (DHPL) which holds 67.99% equity stake in the company. Carol Info Services Limited (CISL) holds 18.96% while Mr H F Khorakiwala holds 7.55%. WHL provides single-specialty and multi-specialty tertiary health care services through its managed chain of nine operational hospitals with a total capacity of 1102 beds as on March 31, 2019 (1232 beds as on March 31, 2018). All the hospitals are run, operated and managed by WHL under the brand name "Wockhardt". WHL has more than a decade old relationship with Partners Harvard Medical International (PHMI) which is involved in clinical training and organizational development. Besides, many of the hospitals managed and run by the company are having accreditation of the NABH (National Accreditation Board of Hospitals & Healthcare).

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	467.22	452.34
PBILDT	-5.93	-32.86
PAT	-80.49	-89.70
Overall gearing (times)	0.73	0.62
Interest coverage (times)	-0.11	-0.63

A: Audited

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
Non-fund-based - ST-Bank Guarantees	-	-	-	50.00	CARE A4+

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.	Non-fund-based - ST-Bank Guarantees	ST	50.00	CARE A4+	-	1)CARE A4+ (21-Dec-18)	1)CARE A3 (05-Mar-18) 2)CARE A3 (18-Apr-17)	1)CARE A3 (03-May-16)

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.

Contact us**Media Contact**

Mradul Mishra

Contact no. – +91-22-6837 4424

Email ID – mradul.mishra@careratings.com**Analyst Contact**

Group Head Name – Pulkit Agarwal

Group Head Contact no.- +91-22-6754 3505

Group Head Email ID- pulkit.agarwal@careratings.com**Business Development Contact**

Name: Meenal Sikchi

Contact no. : +91-22-6754 3455

Email ID : meenal.sikchi@careratings.com**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.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

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**