

Wockhardt Hospitals Limited

December 21, 2018

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Short term Bank Facilities	50.00	CARE A4+ (A Four Plus)	Revised from CARE A3 (A Three)
Total Facilities	50.00 (Rs. Fifty crore only)		

Details of facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

The revision in rating assigned to the bank facilities of Wockhardt Hospitals Ltd (WHL) reflects weakening in the credit profile of its one of the promoter group company i.e. Carol Info Services Limited (CSIL) which extends support to WHL as and when required. Apart from CSIL there are other promoter group companies which do provide support to WHL. Furthermore, WHL is dependent on fund infusion by the promoters/promoter group entities like CSIL to take care of its operational cum capex needs and loan obligations as it continued to post cash losses in FY18 (refers to period between April 01 to March 31). In FY19 till September 30, 2018; WHL has received Rs.35 crore from CSIL demonstrating support from the promoters. Performance of CSIL is driven by credit profile of the flagship company of the group i.e. Wockhardt Ltd (WL, rated CARE BBB-; Negative/CARE A3) who is a key tenant accounting for 95% of CSIL's revenues and 91% of its leased space during FY18 (refers to period between April 01 to March 31).

The rating continue derive strength from the experience of the promoters and track record of the company in managing chain of single/multi-specialty hospitals coupled with large variety of healthcare services along with favorable locations and continuous support from the promoters/group entities by way of infusion of funds. Furthermore, WL and WHL, both, share a common name "Wockhardt" which represent the group's presence in the pharmaceutical business.

Nonetheless, the rating strength is tempered by subdued operational performance since FY15 leading 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.

Any further weakening in credit profile of promoter/promoter group entities or reduction in likelihood of timely infusion of funds/support from them or deterioration in operating performance of WHL remains key rating sensitivity.

Detailed Rationale & Key Rating Drivers

Key Rating Strengths

Well established promoter group with expected continuation of support: 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), along with his daughter Ms Zahabiya Khorakiwala (Managing Director) and sons Dr Murtaza Khorakiwala and Dr Huzaiifa Khorakiwala. The board is supported by professionals with experience in their respective fields.

Over the past few years (FY13 till FY17), the promoters have infused Rs.461 crore till FY18 (Rs.32 crores in FY18, Rs.53 crore in FY17 and Rs.80 crore in FY16) in the company. In FY19 till September 30, 2018; WHL has received Rs.35 crore from CSIL demonstrating support from the promoters. CSIL's rating is driven by credit profile of its key tenant, i.e. Wockhardt Limited (rated CARE BBB-; Negative/A3) which accounts for 91% of CSIL's leased space and 95% of its revenue.

Established operations as a single/multi-specialty hospital: Established in 1991, WHL's operations are well established as it manages a chain of 8 hospitals offering a range of medical and surgical care in almost all major therapeutic segments with specialist doctors available round the clock.

Strong presence in Western India albeit stabilisation risk associated with its recently commissioned hospitals: WHL manages a chain of nine hospitals under the name of 'Wockhardt Hospitals' located across Western India, i.e. six (6) in Maharashtra viz. Mumbai (3), Nagpur (2) and Nashik (1); followed by two (2) in Gujarat viz. one each in Rajkot and Surat and one (1) in Goa. The two major hospitals located at Mumbai Central (350 beds) and Mumbai Suburban-Mira Road (330 beds), which commissioned operations in FY15, have state of the art facilities and are in gestation period. These 2 hospitals contributed around 40% to sales in FY18.

Flat growth in revenues with low occupancy levels resulting into continued operational losses: WHL's total operating income exhibited compounded annual growth rate (CAGR) of around 8.7% over the past three years (FY16 to FY18). However, the company continued to incur cash losses from FY15 onwards owing to lower occupancy rates albeit improving on a y-o-y basis and commercialisation of two major hospitals in FY15 resulting into higher costs. Since then on

the back of lower occupancy levels across its several hospitals coupled with stabilization risk and gestation period associated with its two major hospitals resulted into continued losses.

Moderate capital structure albeit weak debt coverage ratios: Capital structure continues to be moderate and marginally improved to 0.73x as on March 31, 2018 vis-à-vis 0.87x as on March 31, 2017. Debt coverage ratios continued to be weak on account of cash losses.

Liquidity

Liquidity support is derived being part of Wockhardt group as WHL gets continuous support from promoters/group entities. As on September 30, 2018 WHL has received Rs.34.96 crore from promoters/group entities. WHL continues to make cash losses and it is completely dependent on fund infusion by the promoters/group entities to take care of its interest servicing and term loan repayments.

Key Rating Weaknesses

Capital intensive nature of industry: The hospital industry is a capital intensive industry with a long gestation period. Generally, payback period 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.

Industry Outlook: Indian healthcare sector is recognised as one of the fastest growing industries, and is expected to reach US\$ 280 billion by 2020. Rising income level, greater health awareness, increased prevalence of lifestyle diseases and improved access to insurance would be the key contributors to growth. The sector is expected to generate 40 million jobs in India by 2030. 100,000 jobs are expected to be created from Ayushman Bharat, the National Health Protection Scheme. As of October 16, 2018, number of Primary Health Centres (PHCs) increased to 33,047 and number of sub-centres reached 167,880. The hospital industry is expected to reach Rs.8.6 trillion (US\$ 132.84 billion) by FY22.

Analytical approach:

For arriving at the ratings, CARE has considered audited standalone financial statements of Wockhardt Hospitals for FY18. Furthermore, operational synergies and financial linkages/support from the promoters/promoter group entities have been considered.

Applicable Criteria

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[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, biopharmaceutical formulations, and active pharmaceutical ingredients (APIs) and Vaccines.

As on March 31, 2018, WHL is a subsidiary of Dartmour Holdings Private Limited (DHPL) which holds 72.34% equity stake in the company. Carol Info Services Limited (CISL) holds 13.58% while Mr H F Khorakiwala holds 8.03%.

WHL provides single-specialty and multi-specialty tertiary health care services through its managed chain of nine operational hospitals with a total capacity of 1,232 beds as on March 31, 2018 (1,232 beds as on March 31, 2017). 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:

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	451.75	467.22
PBILDT	-18.98	-5.93
PAT	-78.12	-80.49
Overall gearing (times)	0.87	0.73
Interest coverage (times)	-0.39	-0.11

Status of non-cooperation with previous CRA: Not Applicable

Any Other information: Not Applicable

Rating History (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
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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based - ST-Bank Guarantees	ST	50.00	CARE A4+	-	1)CARE A3 (05-Mar-18) 2)CARE A3 (18-Apr-17)	1)CARE A3 (03-May-16)	-

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