April 25, 2022

Narayana Hrudayalaya Limited: Ratings reaffirmed; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term- Term Loan	564.00	564.00	[ICRA]AA- reaffirmed; Outlook revised to Positive from Stable
Short Term- Non-fund Based	35.00	35.00	[ICRA]A1+; Reaffirmed
Long Term/ Short Term- Unallocated	71.00	71.00	[ICRA]AA-/[ICRA]A1+; Reaffirmed, Outlook revised to Positive from Stable
Long Term/ Short Term- Working Capital	80.00	80.00	[ICRA]AA-/[ICRA]A1+; Reaffirmed, Outlook revised to Positive from Stable
Non-Fund Based- Working Capital (sublimit)#	(40.00)	(40.00)	[ICRA]AA-/[ICRA]A1+; Reaffirmed, Outlook revised to Positive from Stable
Long Term – Fund based CC	50.00	50.00	[ICRA]AA- reaffirmed; Outlook revised to Positive from Stable
Total	**800.00**	**800.00**	

**Instrument details are provided in Annexure-1*

Rationale

The change in outlook on the long-term rating to Positive from Stable considers healthy improvement in Narayana Hrudayalaya Limited's (NHL / NH Group / the company) financial profile in 9M FY2022 and ICRA's expectation that the same would sustain going forward. NHL's revenue improved to Rs. 2,759.7 crore crore in 9M FY2022 as against Rs.1,744.6 crore in 9M FY2021 (growth of 58% YoY). NHL's significant revenue growth has been supported by steady improvement in the company's India operations as well as robust performance of its overseas operations at Cayman Islands. The operating profit margin of the company improved to 17.3% in 9M FY2022 from 13.6% in FY2020. The margin expansion was supported by improvement in the company's ARPOB, healthy ramp-up in surgical procudures post the pandemic in addition to various cost reduction and efficiency measures undertaken by the company. The Cayman unit reported healthy revenues and operating margins on YoY basis during 9M FY2022. The margin expansion was supported by improvement in the company's ARPOB, healthy ramp-up in surgical procudures post the pandemic in addition to various efficiency measures undertaken by the company. NHL's debt coverage indicators improved in 9M FY2022 on the back of schedule repayment of term loans and improvement in OPM with interest coverage at 9.5 times in 9M FY2022 compared to 5.0 times in FY2020. Net debt[1]/ OPBDITA also improved to 1.5 times as on December 31, 2021, compared to 2.1 times as on March 31, 2020.

The ratings continue to factor NHL's established position in the healthcare sector and the significant brand equity of 'Narayana Health'. The ratings also derive comfort from the geographically diversified presence of NH Group across India, with a strong presence in Karnataka and East India and the Group diversifying its operational specialties from cardiac care and renal sciences to oncology, neuro-sciences, orthopaedics and gastroenterology. The company also has a global footprint with the establishment of Health City Cayman Islands in North America, where the company is currently setting up an additional multi-speciality centre and a radiation oncology department. The rating takes into account the adequate liquidity profile of the company, with significant undrawn lines of credit and financial flexibility to avail additional limits. The company offers affordable healthcare and competitive pricing managed through cost efficiencies and economies of scale. ICRA also positively

[1] Net debt = Total debt including lease liabilities minus cash and liquid investments.

factors in the stable occupancy level at its existing units and shorter ALOS, which have been enabling improved utilization levels and higher patient turnaround rate resulting in a healthy growth in ARPOB. ICRA also notes that the positive demand outlook for healthcare services in the country due to factors such as better affordability through increasing per capita income and widening medical insurance coverage, growing awareness for healthcare and under-penetration of healthcare services, is expected to benefit the company given its scalable model.

The ratings are however constrained by the high reliance of NHL on the top three hospitals for revenue as well as profit generation. NHL is largely dependent on flagship facilities to continue to maintain a healthy financial position though the revenue dependence has moderated over the last three years. With the ramp up in newer units, the OPBDITA dependence is also expected to reduce further. The Group has moderate return indicators and leverage levels, which had been improving over the last two years until the Covid-19 pandemic broke out. The Group has planned a capex outlay of ~Rs. 700-800 crore in FY2023 and is expected to raise incremental debt to partially fund the same. NHL is currently investing around USD 100 million in Cayman and countries surrounding Cayman. Notwithstanding the strong growth in the profits from existing Cayman unit, leverage metrics are expected to deteriorate to a certain extent in the near to medium term until the new facility stabilizes and starts generating incremental profits. A mix of brownfield, greenfield and acquisition opportunities would be undertaken by NHL to grow in India. Future wave of Covid and its impact on the company would remain a key monitorable.

Key rating drivers and their description

Credit strengths

Significant brand equity of Narayana Health - The company enjoys a strong market position in the healthcare services industry and has an established brand equity, especially in the cardiac segment. Its goodwill and strong brand equity among patients and healthcare professionals has helped NHL in partnering with governmental bodies, not-for-profit trusts and charities, and private organisations to operate and manage their healthcare facilities. In addition to strong brand in India, NHL has also created good visibility for the brand in Cayman Islands in the recent past.

Spread across several geographies of India with strong presence in Karnataka and eastern India; also has international presence - NHL has a network of 47 healthcare facilities, including 20 hospitals (multi-speciality and super-speciality healthcare facilities which provide tertiary care), two managed hospital, five heart centres (super-speciality units which are set up in a third-party hospital) and 19 primary care facilities (including clinics and information centres), across a total of over 30 cities, towns and villages in India, with 6,181 operational beds. The company has an established presence and strong brand recognition in two geographical clusters, namely, Karnataka and eastern India, with an emerging presence in western, central and northern India. The company also has a global footprint with the establishment of Health City Cayman Islands in North America, where the company is currently setting up an additional multi-speciality centre and a radiation oncology department.

Strong presence in cardiac and renal sciences with continuing diversification into other specialties - NHL has a good reputation and strong clinical capabilities in cardiac and renal sciences. It has been expanding its core specialty areas to include oncology, neurology and neurosurgery, orthopaedics and gastroenterology. The contribution of cardiac and renal sciences to inpatient revenue has reduced from 68% in FY2013 to 42% in 9M FY2022 reflecting increasing revenue contribution from other specialties. The new upcoming radiation oncology and multi-speciality centre at Cayman Island is expected to further diversify the company's operations and provide healthy contribution to the company's revenue and profitability owing to the high value nature of the procedures targeted in the new facility.

Credit challenges

Reliance on top-three hospitals and Cayman unit for majority of the revenues and margins - A significant portion of the revenue and EBITDA is derived from the three best performing hospitals of the Group in India - Narayana Institute of Cardiac

Sciences, Mazumdar Shaw Medical Centre (both located in Bangalore) and Rabindranath Tagore International Institute of Cardiac Sciences (located in Kolkata) and the Cayman unit. In 9M FY2022, 35% of the revenues and 42% of the EBITDA was contributed by the top three hospitals as against 41% and 87%, respectively in FY2020, due to the rising contribution from the Cayman Island hospital unit and also the impact of lockdown on flagship facilities which usually see lot of inflows for cardiac/other elective surgeries and international patient footfalls. NHL is largely dependent on these flagship facilities and Cayman unit to maintain a healthy financial position. With the ramp up in newer units the OPBDITA dependence is also expected to reduce further. However, this remains a key rating monitorable.

Proposed capex to constrain improvement in leverage - The Group has moderate return indicators and leverage levels, which had been improving until the Covid-19 pandemic broke out. While debt metrics deteriorated on account of decline in profitability in FY2021, the same revived in FY2022 and debt metrics showed significant improvement in 9M FY2022. NHL's debt coverage indicators improved in 9M FY2022 on the back of scheduled repayment of term loans and improvement in OPM with interest coverage at 9.5 times in 9M FY2022 compared to 5.0 times in FY2020. Net debt[2]/ OPBDITA also improved to 1.5 times as on December 31, 2021, compared to 2.1 times as on March 31, 2020. Going forward, the Group has planned capex outlay of ~Rs. 700-800 crore in FY2023 to partially be funded by external debt and internal accruals. NHL is currently investing around USD 100 million in Cayman and countries surrounding Cayman. A mix of brownfield, greenfield and acquisition opportunities would be undertaken by NHL to grow in India. Notwithstanding the strong growth in the profits from existing Cayman unit, leverage metrics are expected to weaken in the near to medium term until the new facility stabilizes and starts generating incremental profits.

Exposed to regulatory risks inherent in the sector- Regulatory risks pertaining to restrictive pricing regulations levied by the Central and state government organisations could constrain the profit margins of the company.

Stiff competition in the healthcare industry- NHL is exposed to competition from other hospital chains in the industry. However, strong brand equity of the company is expected to aid growth going forward.

Liquidity position: Adequate

The Group's operational cash inflows over the next twelve months and ease of access to external financing, if required, are expected to be adequate to cover the operational expenses, planned capital expenditure and debt servicing obligations over this period. The company has also managed the receivable cycle well resulting in adequate cash flow. Further, the Group has a total overdraft facility of around Rs. 155 crore, which is used sparingly during 9MFY2022. Term loans have also been sanctioned for the planned capex, which are yet to be drawn. The Group has planned a capex outlay of ~Rs. 700-800 crore in FY2023 and is expected to raise incremental debt to partially fund the same. ICRA expects the Group to meet its near-term and medium-term commitments through internal sources of cash and incremental debt. The company had free cash and bank balance of Rs. 213.3 crore and liquid investments in mutual funds of Rs. 129.5 crore as on Dec 31, 2021. The total debt for the company as on December 31, 2021 is Rs. 555.9 crore. Repayment of existing debt is Rs. 91.3 crore in FY2022, Rs. 102.2 crore in FY2023 and Rs. 96.4 crore in FY2024.

Rating sensitivities

Positive factors – Positive triggers include improvement in business risk profile through ramp-up in profitability in newer units resulting in reduced dependence on the flagship hospital units. Specific credit metrics which could lead to upgrade include Net Debt / OPBITDA less than 1.25 times on sustained basis.

[2] Net debt = Total debt including lease liabilities minus cash and liquid investments.

Negative factors – Negative triggers include deterioration in profitability levels, significant increase in debt levels on account of inorganic growth, or to fund cost overruns in ongoing projects. Specific credit metrics which could lead to downgrade include Net Debt / OPBITDA higher than 2.0 times on sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Hospitals
Parent/Group Support	Not Applicable
Consolidation/Standalone	Consolidation: ICRA has consolidated NHL along with its operational subsidiaries and associate companies (mentioned in Annexure-2) on account of the strong business and financial linkages between these entities.

About the company

NHL operates a chain of multispecialty, tertiary and primary healthcare facilities. Dr. Devi Shetty, who has over 30 years of medical experience, began NHL in 2000. The Group, which initially focused on cardiac and renal sciences, expanded to additional areas of focus such as cancer care, neurology and neurosurgery, orthopaedics, and gastroenterology and was rebranded as 'Narayana Health' in 2013 to reflect the diversified presence. The Group owns and operates certain hospitals apart from entering into management agreements with hospitals to acquire their operational control. NHL has a strong presence in the southern state of Karnataka and eastern India, with an emerging presence in western, central and northern India. NHL has a network of 47 healthcare facilities, including 20 hospitals (multi-speciality and super-speciality healthcare facilities which provide tertiary care), two managed hospital, five heart centres (super-speciality units which are set up in a third-party hospital) and 19 primary care facilities (including clinics and information centres) across a total of over 30 cities, towns and villages in India and one hospital in Cayman Islands with total 6,181 operational beds and the potential to reach a capacity of up to 6,845 beds.

Key financial indicators

NHL Consolidated	FY2020 audited	FY2021 audited	9M FY2022 provisional
Operating Income (Rs. crore)	3,127.8	2,582.4	2,759.7
PAT (Rs. crore)	122.5	-7.5	279.1
OPBDIT/OI (%)	13.6%	7.3%	17.3%
PAT/OI (%)	3.9%	-0.3%	10.1%
Total Outside Liabilities/Tangible Net Worth (times)	1.5	1.5	NA
Total Debt[3]/OPBDIT (times)	2.1	3.7	1.2
Interest Coverage (times)	5.0	2.5	9.5

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation Note: Amount in Rs. crore; All calculations are as per ICRA research Source: Company

[3] *Total debt includes lease liabilities minus cash and liquid investments.*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020	
					Apr 25, 2022	Apr 15, 2021	Sep 14, 2020	July 3, 2020	March 27, 2020	July 19, 2019
1	Term Loan	Long Term	564.0	347.1	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Non-Fund Based	Short Term	35.0	23.6	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Unallocated	Long/Short Term	71.0	-	[ICRA]AA- (Positive) / [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+
4	Long-term/Short-term - Working Capital	Long/Short Term	80.0	-	[ICRA]AA- (Positive) / [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+
5	Non-fund based – working capital#	Long/Short Term	(40.0)	-	[ICRA]AA- (Positive) / [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+
6	Fund based CC	Long Term	50.0	-	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-	-	-

 # Sub-limit of Long Term/ Short Term- Working Capital Limit of Rs. 80 crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term- Term Loan	Simple
Short Term- Non-fund Based	Simple
Long Term/ Short Term- Unallocated	NA
Long Term/ Short Term- Working Capital	Simple
Non-Fund Based- Working Capital (sublimit)#	Simple
Long Term – Fund based CC	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Long Term- Term Loan	Jun-2017	NA	Mar-2029	564.00	[ICRA]AA- (Positive)
NA	Short Term- Non-fund Based	NA	NA	NA	35.00	[ICRA]A1+
NA	Long Term/ Short Term-Unallocated	NA	NA	NA	71.00	[ICRA]AA- (Positive) / [ICRA]A1+
NA	Long Term/ Short Term-Working Capital	NA	NA	NA	80.00	[ICRA]AA- (Positive) / [ICRA]A1+
NA	Non-Fund Based- Working Capital (sublimit)	NA	NA	NA	(40.00)	[ICRA]AA- (Positive) / [ICRA]A1+
NA	Fund Based- Cash Credit	NA	NA	NA	50.00	[ICRA]AA- (Positive)

Source: *Company*

[*Please click here to view details of lender-wise facilities rated by ICRA*]

Annexure-2: List of entities considered for consolidated analysis

Company Name	NHL Ownership	Consolidation Approach
Narayana Hrudayalaya Surgical Hospital Pvt Ltd	100%	Full Consolidation
Meridian Medical Research and Hospital Ltd	99.12%	Full Consolidation
Narayana Health Institutions Pvt Ltd	100%	Full Consolidation
Narayana Hospitals Pvt Ltd	100%	Full Consolidation
Narayana Institute for Advanced Research Pvt Ltd	100%	Full Consolidation
Narayana Vaishno Devi Speciality Hospitals Pvt Ltd	100%	Full Consolidation
Narayana Hrudayalaya Hospitals Malaysia Sdn Bhd	100%!	Full Consolidation
Narayana Cayman Holdings Ltd	100%	Full Consolidation
Health City Cayman Islands Ltd (HCCI)	100%*	Full Consolidation
NH Health Bangladesh private Limited	100%	Full Consolidation
Narayana Holdings Private Limited	100%	Full Consolidation
Trimedx India Pvt Ltd	10.00%	Equity Method
Cura Technologies Inc.	43.33%	Equity Method
ISO Healthcare	20.02%	Equity Method

Source: *NHL annual report FY2021*

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