Narayana Hrudayalaya Limited

February 22, 2019

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based/ Non-fund based – Working Capital	40	40	[ICRA]AA- (Stable) /[ICRA]A1+; Reaffirmed
Non-fund based – Working capital	(40.00)#	(40.00)#	
Fund-based – Term Loan	268	285	[ICRA]AA- (Stable); Reaffirmed
Long-term – Unallocated limits	1	0	
Fund-based – Cash Credit	4	0	
Non-fund based – Working capital limits	37	25	[ICRA]A1+; Reaffirmed
Commercial Paper Programme	50	50	[ICRA]A1+; Reaffirmed
Total	**400**	**400**	

* Instrument details are provided in Annexure-1
# Sub-limit of Fund-based – Working Capital

Rationale

The rating reaffirmation favourably factors in Narayana Hrudayalaya Limited's (NHL) established position and the significant brand equity of the 'Narayana Health' brand. The ratings also derive comfort from the geographically diversified presence of NHL across India, with a strong presence in Karnataka and East India. NHL has been diversifying its operational specialities from cardiac care and renal sciences to oncology, neuro-sciences, orthopaedics and gastroenterology. ICRA also takes into account the asset right model of capital deployment employed by the company to achieve growth, which results in low investment outlay. The company hence has a low capital cost of Rs 0.31 crore per bed as of December 31, 2018. The company offers affordable healthcare at competitive pricing, managed through cost efficiencies and economies of scale. The company is expected to benefit from the positive demand outlook for healthcare services in the country, given its scalable model. The healthcare sector would remain buoyant as increasing per capita income and widening medical insurance cover increases affordability and raises awareness.

The ratings are, however, constrained by NHL' high reliance on the top-three hospitals for revenue as well as profit generation. Commission of new hospitals and regulatory pricing restrictions constrained the company's profitability in FY2018 and 9MFY2019, resulting in moderate return indicators. The Group will continue to be exposed to regulatory risks pertaining to restrictive pricing regulations levied by the Central and state governments in India. The leverage of the company rose in FY2018 as seen from the gearing[1] level, which increased to 0.77 times as on March 31, 2018 from 0.22 times as on March 31, 2017, because of the acquisition of a near completion hospital in Gurgaon and debt-funded buyback of partner's equity and consolidation of Cayman associate in Q4FY2018.

[1] Debt figures for the company exclude financial lease obligations

Outlook: Stable

ICRA believes NHL will continue to benefit from its established brand equity, diversified specialty and geographical presence. The outlook may be revised to Positive in case there is significant improvement in profit margins and reduction in leverage as measured by Debt-to-OPBDITA. The outlook may be revised to Negative if substantially large debt-funded capex or lower-than-expected profitability deteriorates the leverage and coverage indicators.

Key rating drivers

Credit strengths

Significant brand equity of Narayana Health brand: The company enjoys a strong market position in the healthcare services industry and has an established brand equity (especially in the cardiac segment) and ability to provide quality healthcare at affordable prices. Strong brand equity and goodwill among patients and healthcare professionals have helped NHL in partnering with governmental bodies, not-for-profit trusts and charities, and private organisations to operate and manage their healthcare facilities. Cost efficiencies and lean cost structure enable the company to provide affordable healthcare, which coupled with subsidised medical service obligations, results in lower Average Revenue Per Operating Bed (ARPOB) than most of its comparable peers.

Spread across several geographies of India with strong presence in Karnataka and eastern India: NHL has a network of 50 healthcare facilities, including 23 hospitals, seven heart centres and 19 primary care facilities, across a total of over 30 cities, towns and villages in India, with 6,228 operational beds and capacity beds of 7,146 beds. The primary care facilities and heart centres act as feeders for the main hospitals of the Group. NHL 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, North America (which has become 100% subsidiary from Q4FY2018).

Strong presence in cardiac and renal sciences with continuing diversification into other specialties: NHL has a strong reputation and clinical capabilities in cardiac and renal sciences and has been expanding its core specialty areas to include additional clinical specialties of oncology, neurology and neurosurgery, orthopaedics and gastroenterology. Cardiac and renal services, which contributed 68% to the inpatient revenue in FY2013, reduced to 50% in FY2018. In FY2018, 42% of inpatient revenues came from cardiac divisions and 8% was contributed by renal sciences.

Asset right model of capital deployment results in low capital cost per bed: NHL follows an asset-light model, which helps to maintain low capital cost per operating bed. The company generally partners with trusts, donors, and societies for land and building infrastructure and invests only in medical infrastructure. NHL uses various models of operating hospitals in order to optimise capital employed and returns generated. This approach allows it to achieve capital cost of Rs 0.31 crore per bed as of December 31, 2018 in the Indian hospitals. NHL has supplemented its asset-light model with the acquisition of existing healthcare facilities.

Credit challenges

Heavy reliance on top-three hospitals for margins: In FY2018, the three flagship hospitals contributed significantly to the Group's revenues and EBITDA as several of the other hospitals were under the ramp-up phase. NHL is heavily dependent on these facilities for generating continuously high revenues and maintaining healthy financial position. However, this dependence has moderated over the last three years.

Exposure to regulatory risks: Regulatory risks in terms of restrictive pricing regulations levied by the Central and state government organisations could constrain the profit margins in the industry going forward. The impact of Ayushman Bharat scheme on the affordable care segment and on the company's performance is also a key monitorable.

Commission of new hospitals and regulatory pricing restrictions constrain profitability: The company has over the last 18 months commissioned two new hospitals in Mumbai (Q1FY2018) and Gurgaon (Q4FY2018), included additional specialisations in hospitals, and took over Dharamshila Hospital (Q1FY2018). These, along with the regulatory interventions such as pricing restrictions and GST incidence, have constrained the profit margins and return indicators of the company.

Increase in leverage levels in FY2018: The debt levels of the company have increased to Rs 822.5 crore as on December 31, 2018 from from Rs 217 crore as on March 31, 2017. The rise in debt is primarily on account of debt funded acquisition of partner's equity and consolidation of debt in the erstwhile associate entity viz. Health City Cayman Islands. The increase in borrowings at the Indian business is largely attributable to commissioning of the hospital at Gurgaon on an asset-heavy engagement model.

Liquidity position:

The company maintains adequate cash and liquid investments on its books. As on December 31, 2018, the cash and liquid investments stood at Rs 99.1 crore. The fund-based working capital limit utilisation was minimal, at Rs 5 crore of the sanctioned Rs ~150 crore as on Dec 31, 2018, at the consolidated level.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Hospitals
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on the consolidated financial profile of the company.

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. It also enters into management agreements with hospitals under which the Group acquires their operating 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. The Narayana Health brand is associated with the delivery of affordable healthcare services, by leveraging its economies of scale.

NHL has a network of 21 owned/operated hospitals (multi-speciality and super-speciality healthcare facilities which provide tertiary care), three managed hospitals, seven heart centres (super-speciality units that are set up in a third party hospital) and 19 primary care facilities (including clinics and information centres), across a total of 31 cities, towns and villages in India, and one hospital in Cayman Islands with 6,228 operational beds and 7,146 capacity beds.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	1,884.65	2,290.78
PAT (Rs. crore)	90.91	56.03
OPBDIT/OI (%)	12.82%	9.81%
RoCE (%)	14.49%	8.60%
Total Debt/TNW (times)	0.23	0.89
Total Debt/OPBDIT (times)	0.91	4.11
Interest coverage (times)	10.96	4.69
Adjusted Debt*/TNW (times)	0.23	0.77
Adjusted Debt*/OPBDIT (times)	0.90	3.57

* Adjusted Debt figures exclude financial lease obligations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2018		Date & Rating in FY2017	Date & Rating in FY2016
					Feb-19	Jan-18	Nov-17	Sep-16	Jul-15
1	Fund-based/ Non-fund based – Working Capital	Long Term/Short Term	40.00	0.00	[ICRA]AA- (Stable) /[ICRA]A1+	[ICRA]AA- (Stable) /[ICRA]A1+	[ICRA]AA- (Stable) /[ICRA]A1+	NA	NA
2	Non-fund based – Working capital	Long Term/Short Term	(40.00) #	7.97	[ICRA]AA- (Stable) /[ICRA]A1+	[ICRA]AA- (Stable) /[ICRA]A1+	[ICRA]AA- (Stable) /[ICRA]A1+	NA	NA
3	Fund-based – Term Loan	Long Term	285.00	285.00	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	NA	NA
4	Non-fund based – Working capital limits	Short Term	25.00	2.58	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	NA	NA
5	Fund-based – Cash Credit	Long Term	-	NA	NA	[ICRA]AA- (Stable)	NA	NA	NA
6	Long-term – Unallocated limits	Long Term	-	NA	NA	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	NA
7	Short-term – Unallocated limits	Short Term	-	NA	NA	NA	NA	[ICRA]A1+	NA
8	Commercial Paper Programme	Short Term	50.00	0.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	NA
9	Commercial Paper Programme	Short Term	NA	NA	NA	NA	NA	Withdrawn	[ICRA]A1+ (SO)

Sub-limit of Fund-based – Working Capital

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based/ Non-fund based – Working Capital	NA	NA	NA	40.00	[ICRA]AA- (Stable) /[ICRA]A1+
NA	Non-fund based – Working capital	NA	NA	NA	(40.00)#	[ICRA]AA- (Stable) /[ICRA]A1+
NA	Fund-based – Term Loan	June-2017	NA	March-2029	285.00	[ICRA]AA- (Stable)
NA	Non-fund based – Working capital limits	NA	NA	NA	25.00	[ICRA]A1+
NA	Proposed Commercial Paper Programme	NA	NA	NA	50.00	[ICRA]A1+

Sub-limit of Fund-based – Working Capital

Source: Narayana Hrudayalaya Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Narayana Hrudayalaya Surgical Hospital Pvt Ltd	100%	Full Consolidation
Meridian Medical Research and Hospital Ltd	99.01%	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
NewRise Healthcare Private Limited	100%#	Full Consolidation
Narayana Holdings Private Limited	100%	Full Consolidation
Cura Technologies Inc.	43.33%	Equity Method
ISO Healthcare	20.02%	Equity Method
Trimedx India Pvt Ltd	10.00%	Equity Method

! Narayana Hrudayalaya Hospitals Malaysia Sdn Bhd - Commenced Members' Voluntary winding up in 2017 as per the extant provisions of the Malaysian Company Law. The company stands dissolved on 27th March 2018
***** HCCI was previously 28.6% Associate; The company w.e.f. January 2018 has become a wholly owned subsidiary; Originally incorporated as Narayana Cayman Hospital Ltd in 2010, name changed in 2012*
# NewRise Healthcare Private Limited - merged with NHL vide Regional Director's Order dated 4th October 2017

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