September 14, 2020

Narayana Hrudayalaya Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term- Term Loan	565.00	437.00	[ICRA]AA- (Stable); Reaffirmed
Short Term- Non-fund Based	35.00	35.00	[ICRA]A1+; Reaffirmed
Long Term/ Short Term- Unallocated	45.00	198.00	[ICRA]AA- (Stable)/[ICRA]A1+; Assigned/Reaffirmed
Long Term/ Short Term- Working Capital	80.00	80.00	[ICRA]AA- (Stable)/[ICRA]A1+; Reaffirmed
Non-Fund Based- Working Capital (sublimit)#	(40.00)	(40.00)	
Commercial Paper Programme	50.00	-	[ICRA]A1+; Reaffirmed and Withdrawn
Long Term – Fund based CC	-	50.00	[ICRA]AA- (Stable); Assigned
Total	**775.00**	**800.00**	

**Instrument details are provided in Annexure-1*
 # Sub-limit of Long Term/ Short Term- Working Capital

Rationale

The ratings continue to reflect Narayana Hrudayalaya Limited's (NHL or NH Group) established position in the healthcare sector and the significant brand equity of the 'Narayana Health' brand. 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 group reported consolidated OPBITDA increase by 36% and 33%[1] on y-o-y basis during FY2019 and FY2020, driven by steady growth in the performance of the flagship units, rising contribution from the newer units located across the country, as well as healthy ramp-up in revenue and profitability from the unit in Cayman Islands.

However, the ratings are constrained due to NHL's high reliance on the top-three performing hospital units for revenue as well as profit generation, coupled with the losses during stabilization phase in new hospitals. The ratings also take into account the regulatory risks associated with the sector, including any pricing restrictions. The Group has moderate return indicators and leverage levels; nonetheless, the leverage has reduced considerably from the peak levels as of March 2018 due to healthy growth in profits as well as reduction in scale of capital expenditure.

Further, NH Group's operational and financial profile have been adversely impacted since mid-March 2020 due to ongoing Covid-19 pandemic. Occupancy levels across hospital units witnessed significant decline due to various factors including deferral of elective procedures, restrictions on travel, etc. However, with gradual lifting of restrictions since June 2020, occupancy levels have improved with June month revenue improving to 69% of pre-Covid level compared to 35% of pre-Covid levels in the month of April. The high fixed costs and operating leverage associated with the company's business model resulted in OPBITDA losses during Q1FY2021 with the consolidated OPBITDA break-even being around

[1] *Adjusted for the impact of IndAS 116 adoption to make the numbers comparable*

70% of its pre-Covid revenue at the current cost structure post implementation of measures like graded cuts in compensation of its staff. While profitability would continue to be impacted in current quarter, good working capital management and cost reduction initiatives will keep the reliance on additional borrowings limited, as witnessed in previous quarter. ICRA notes that the company has a comfortable liquidity profile (cash and liquid investments of Rs. 154.5 crore as on June 2020) and largely unutilized working capital limits. Moreover, the company has strong financial flexibility on account of its established operational profile and moderate leverage.

The stable outlook represents ICRA's expectation that the company's operations will attain near-normalcy towards second half of current fiscal. Nonetheless, any prolonged disruption of company's operations due to the pandemic could weaken NH Group's credit quality and will be key monitorable.

Additionally, ICRA has withdrawn the rating on the commercial paper programme at the request of the company as there is no amount outstanding against the rated facility. This is in accordance with ICRA's Policy on Withdrawal and Suspension.

Key rating drivers and their description

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. 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. NHL targets to provide affordable healthcare which is evidenced by a 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 47 healthcare facilities, including 20 hospitals (multi-speciality and super-speciality healthcare facilities which provide tertiary care), one managed hospital, six 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 5,859 operational beds and the potential to reach a capacity of up to 6,597 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, North America.

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 41% in Q1 FY2021.

Credit challenges

Heavy reliance on top-three hospitals - In FY2019 and 9MFY2020, the three flagship hospitals contributed significantly to the Group's revenues and EBITDA as several of the other hospitals were still ramping up. However, this dependence has moderated over the last couple of years. In 9mFY2020, 41% of the revenues and 74% of the EBITDA was contributed by the top three hospitals as against 42% and 84%, respectively in FY2019, partly due to the rising contribution from the Cayman Island hospital unit. Over the last three years, the company has commissioned new hospitals in Mumbai (in Q1FY2018) and Gurgaon (in Q4FY2018), apart from taking over Dharamashila Hospital (in Q1FY2018) and adding additional specialties. The losses in the new hospitals in growth phases have constrained the consolidated profit margins.

Exposed to regulatory risks inherent in the sector- Going forward, regulatory risks pertaining to restrictive pricing regulations levied by the Central and state government organisations could constrain the profit margins of the company. The ongoing Covid-19 pandemic may also cause further disruption in NH's operations and remains a key event risk. Continued growth in Covid-19 cases across the country and consequent steps taken by state governments to reserve bed capacity for Covid-19 patients and cap prices may act as a constraint in the near term.

Moderate leverage levels, albeit on a declining trend from peak levels in March 2018 - The debt levels of the company had increased to Rs 802 crore as on March 31, 2018 from Rs 217 crore as on March 31, 2017. However, the debt levels are currently on a declining trend, supported by gradual improvement in profitability and limited capital expenditure. The debt has reduced to Rs 718 crore as March 2020 from the peak level of Rs 802 crore as on March 2018. Leverage as measured by Debt / OPBITDA was 1.9 times and Adjusted Debt/ OPBITDA was 2.1 times[2] as on March 31, 2020; moderated from the earlier elevated level of Debt / OPBITDA of 3.8 times and Adjusted Debt/ OPBITDA of 4.3 times as on March 31, 2018.

Liquidity position: Adequate

The liquidity position of NHL is **adequate** backed by moderate debt repayment obligations as well as sanctioned working capital lines which are largely undrawn. Despite cash losses in Q1 FY2021, the company has a healthy liquidity profile which along with various cash conservation measures adopted will keep the reliance on additional borrowings limited. Notwithstanding the lower accruals in the current year, the company has no large capital expenditure plans and limited term debt repayments. As on June 2020, the group reported cash and bank balances of Rs 115.3 crore apart from mutual fund investments of Rs 39.2 crore.

Rating sensitivities

Positive triggers – ICRA could upgrade NHL's rating if there is an 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 Total Debt / OPBITDA less than 1.25 times on sustained basis.

Negative triggers – Negative pressure on NHL's rating could arise if there is a weakening of the business risk profile through lower growth or profitability in the mature units or sustained delay in achieving profitability in the new units. Specific credit metrics which could lead to downgrade include Total Debt / OPBITDA higher than 2.5 times on sustained basis.

[2] *Adjusted Debt includes liability for business acquisition of approx. Rs. 97 crore as on March 2020, which has been treated as debt by ICRA. Excluding this amount, the reported Debt / OPBITDA was 1.9 times as on March 2020.*

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Hospitals ICRA Policy on Withdrawal and Suspension of Credit Rating
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), one managed hospital, six 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 5,696 operational beds and the potential to reach a capacity of up to 6,184 beds.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	2860.9	3,127.8
PAT (Rs. crore)	61.6	122.6
OPBDIT/OI (%)	10.1%	13.5%
PAT/OI (%)	2.2%	3.9%
Total Outside Liabilities/Tangible Net Worth (times)	1.4	1.5
Total Debt/OPBDIT (times)	2.8	1.9
Total Adjusted Debt/OPBDIT (times)#	3.2	2.1
Interest Coverage (times)	4.0	5.0

Total Adjusted Debt includes liability for business acquisition of Rs 102 crore and Rs. 97 crore as on March 2019 and March 2020 respectively which has been treated as debt by ICRA

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)					Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Rating	Rating	FY2020		FY2019	FY2018	
					14-Sep-2020	3-July-2020	27-Mar-2020	19-Jul-2019	22-Feb-2019	2-Jan-2018	23-Nov-2017
1	Term Loan	Long Term	437.0	410.0	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Non-Fund Based	Short Term	35.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Unallocated	Long/Short Term	198.0	-	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	-	-	-
4	Fund based/Non-fund based Working Capital	Long/Short Term	80.0	-	[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+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+
5	Non-fund based – working capital	Long/Short Term	(40.0) #	-	[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+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+
6	Commercial Paper	Short Term	0.0	-	[ICRA]A1+ withdrawn	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
7	Fund based CC	Long Term	50.0	-	[ICRA]AA- (Stable)	-	-	-	-	-	-
8	Unallocated	Long Term	-	-	-	-	-	-	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)

Amount in Rs. Crore

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

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	Long Term- Term Loan	Jun-2017	NA	Mar-2029	437.00	[ICRA]AA- (Stable)
NA	Short Term- Non-fund Based	NA	NA	NA	35.00	[ICRA]A1+
NA	Long Term/ Short Term- Unallocated	NA	NA	NA	198.00	[ICRA]AA- (Stable) / [ICRA]A1+
NA	Long Term/ Short Term- Working Capital	NA	NA	NA	80.00	[ICRA]AA- (Stable) / [ICRA]A1+
NA	Non-Fund Based- Working Capital (sublimit)	NA	NA	NA	(40.00)	[ICRA]AA- (Stable) / [ICRA]A1+
NA	Fund Based- Cash Credit	NA	NA	NA	50.00	[ICRA]AA- (Stable)
NA	Proposed Commercial Paper Programme	NA	NA	NA	0.0	[ICRA]A1+ withdrawn

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	99.12%	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

! 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

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About ICRA Limited:

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