

April 15, 2021

## Narayana Hrudayalaya Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term- Term Loan	437.00	564.00	[ICRA]AA- (Stable); reaffirmed
Short Term- Non-fund Based	35.00	35.00	[ICRA]A1+; reaffirmed
Long Term/ Short Term- Unallocated	198.00	71.00	[ICRA]AA- (Stable) / [ICRA]A1+; 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)	[ICRA]A1+; reaffirmed
Long Term – Fund based CC	50.00	50.00	[ICRA]AA- (Stable); reaffirmed
<b>Total</b>	<b>800.00</b>	<b>800.00</b>	

\*Instrument details are provided in Annexure-1

# Sub-limit of Long Term/ Short Term- Working Capital

### Rationale

The rating reaffirmation 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 company also has a global footprint with the establishment of Health City Cayman Islands in North America, where the company is currently planning to set 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, if required.

However, the ratings are constrained by the impact of Covid-19 on the operations of the Group in FY2021. Owing to the lockdown in Q1, the Group reported operating losses in line with the significant drop in revenues. Despite gradual reopening during the unlock phase, continuing impact of Covid-19 pandemic in the form of reservation of bed capacities for Covid patients and restrictions on international travel constrained business operations in Q2 and Q3 as well. The flagship hospital units of the Group, which had been focussed on cardiac procedures, including for international patients, were most impacted by these disruptions. Nonetheless, the Group witnessed healthy recovery in operations at other units, which combined with sustained growth in revenue and profitability in the Cayman unit resulted in the break-even at OPBTIDA level in Q2FY2021 and recovery of OPBTIDA to 94% of the previous year figure in Q3FY2021. Going forward, the restrictions on international travel are expected to constrain recovery in the flagship units to some extent; though the impact will be offset to a large extent by the strong performance in the Cayman unit.

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, which had been improving over FY2019 and FY2020 until the Covid-19 pandemic broke out. Going forward, the Group plans to incur a significant greenfield capex in the Cayman Islands with estimated spend of around USD 93 million to be funded 50:50 by debt and internal accruals. 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.

The stable outlook represents ICRA's expectation that the Group's diversified business operations and brand equity will support its financial profile, notwithstanding the continuing Covid-19 pandemic.

## 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.

**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 5,929 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 planning to set 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 37% in 9mFY2021. 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

**Impact of Covid-19 pandemic** - Covid-19 pandemic had severe impact on the operations of the Group in FY2021. Owing to the lockdown in Q1, the Group reported operating losses in line with the significant drop in revenues. Despite gradual reopening during the unlock phase, continuing impact of Covid-19 pandemic in the form of reservation of bed capacities for Covid patients and restrictions on international travel constrained business operations in Q2 and Q3 as well. The flagship hospital units of the Group, which had been focussed on cardiac procedures, including for international patients, were most impacted by these disruptions. Nonetheless, the Group witnessed healthy recovery in operations at other units, which combined with sustained growth in revenue and profitability in the Cayman unit resulted in the break-even at OPBITDA level in Q2FY2021 and recovery of OPBITDA to 94% of the previous year figure in Q3FY2021. Going forward, the restrictions on international travel are expected to constrain recovery in the flagship units to some extent; though the impact will be offset to a large extent by the strong performance in the Cayman unit. Historically the flagship units have contributed to a large share of the profits generated by the Group and sustaining the current trend of profitability at the Cayman unit will be critical to balance the expected moderation in near term performance of the flagship units.

**Proposed capex to constrain improvement in leverage** - The Group has moderate return indicators and leverage levels, which had been improving over FY2019 and FY2020 until the Covid-19 pandemic broke out. Going forward, the Group plans to incur a significant greenfield capex in the Cayman Islands with estimated spend of around USD 93 million to be funded 50:50 by debt and internal accruals. 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** - 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. 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.

## Liquidity position: Adequate

The liquidity position of NHL is adequate backed by moderate debt repayment obligations in near-term as well as sanctioned working capital lines of Rs. 130 crore which are largely undrawn. Despite weak accruals in 9mFY2021, the company has a healthy liquidity profile which along with various cash conservation measures and efficient management in receivable cycle kept the reliance on additional borrowings for working capital limited. On a standalone basis, the company had cash balances of Rs 30 crore, in addition to undrawn OD limits of Rs 130 crore as on February 2021. The company will fund the proposed capex in FY2022 and FY2023 through a mix of internal accruals and debt.

### Rating sensitivities

**Positive factors** – ICRA could upgrade NHL’s rating if there is sustained recovery in business operations at the flagship units along with continuing ramp-up in profitability in newer units leading to higher than expected accruals. Specific credit metrics which could lead to upgrade include Total Debt / OPBITDA less than 1.25 times on sustained basis.

**Negative factors** – Negative pressure on NHL’s rating could arise if there is a weakening of the business risk profile through lower growth or profitability due to any factors including the continuing impact of Covid-19 pandemic. Specific credit metrics which could lead to downgrade include Total Debt / OPBITDA higher than 2.5 times on sustained basis.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Hospitals</a>
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 5,929 operational beds and the potential to reach a capacity of up to 6,663 beds.

### Key financial indicators (audited)

NHL Consolidated	FY2019	FY2020
Operating Income (Rs. crore)	2,860.9	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)	3.2	1.9
Interest Coverage (times)	4.0	5.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation  
Source: NHL, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

## Rating history for past three years

	Instrument	Current Rating (FY2022)			Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2020 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
					Apr 15, 2021	Sep 14, 2020	July 3, 2020	March 27, 2020 July 19, 2019	Feb 22, 2019
1	Term Loan	Long Term	564.0	389.0	[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+
3	Unallocated	Long/Short Term	71.0	-	[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+
4	Long-term/Short-term - 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+
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+
6	Fund based CC	Long Term	50.0	-	[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 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 [click here](#)

**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	564.00	[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	71.00	[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)

Source: NHL

**Annexure-2: List of entities considered for consolidated analysis**

Company Name	LTHL 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 FY2020

! 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 27<sup>th</sup> 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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### Branches



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