

April 25, 2022

Narayana Hrudayalaya Surgical Hospital Private Limited: Ratings reaffirmed; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Working Capital	15.00	15.00	[ICRA]AA-(CE) reaffirmed; Outlook revised to Positive from Stable
Fund-based – Term Loan	35.00	35.00	[ICRA]AA-(CE) reaffirmed; Outlook revised to Positive from Stable
Short term – Non-fund based	6.00	16.00	[ICRA]A1+(CE); Reaffirmed
Short term – Unallocated limits	10.00	0.00	-
Total	66.00	66.00	

Rating Without Explicit Credit Enhancement

[ICRA]BBB+/[ICRA]A2+

*Instrument details are provided in Annexure-1

Note: The (CE) suffix mentioned alongside the (provisional) rating symbol indicates that the rated instrument/facility is to be backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The table above also captures ICRA's opinion on (a) the rating if the pending actions/ documents are not completed, and (b) the rating without factoring in the proposed explicit credit enhancement.

Rationale

The rating reaffirmation on Rs. 66-crore bank limits is based on the strength of the corporate guarantee provided by Narayana Hrudayalaya Limited (NHL/the guarantor, rated [ICRA]AA- (Positive) and [ICRA]A1+), the parent of Narayana Hrudayalaya Surgical Hospital Private Limited (NHSPL). The positive outlook reflects ICRA's outlook on the rating of the guarantor, NHL.

Adequacy of credit enhancement

The rating of Rs. 66 crore bank limits of NHSPL takes into account the corporate guarantee and undertaking provided by NHL to the borrowing programme of NHSPL. The guarantee is legally enforceable, unconditional, irrevocable and covers the entire amount and tenor of the rated instrument. Given these attributes, the guarantee provided by Narayana Hrudayalaya Limited is adequately strong to result in an enhancement in the rating of the said instrument to [ICRA]AA-(CE)/[ICRA]A1+(CE) against the rating of [ICRA]BBB+/[ICRA]A2+ without explicit credit enhancement. In case the rating of the guarantor was to undergo a change in future, the same would reflect in the rating of the aforesaid instrument as well.

Salient covenants of the rated facility

- » Any default committed by borrower shall be deemed to be an event of default by the guarantor NHL and vice-versa.
- » The Guarantor to maintain its current shareholding in borrower till the tenor of the facility and shareholding of promoters in NHL not to fall below 51%.
- » Borrower to undertake that all shortfalls in operating expenses/debt servicing would be met through equity/promoter contribution.
- » Financial covenants for FY2022 include a minimum Total Net Worth of Rs. 40 crore, maximum Debt/EBITDA of 2.5 times, minimum Debt Service Coverage Ratio of 1.5 times and minimum Fixed Asset Coverage Ratio of 1.2 times

Key rating drivers and their description

Credit strengths

Corporate guarantee and undertaking provided by NHL towards the rated bank facilities of NHHPL– The rating derives comfort from the irrevocable and unconditional corporate guarantee extended by NHL and undertaking provided by the guarantor that it would ensure that the related debt obligations are serviced on or prior to the due date. The rated instrument does not involve a structured payment mechanism.

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.

Consistent funding support from parent to meet all deficits– Owing to losses in the acquired Dharamshila unit, the company requires support from parent entity. There has been a track record of consistent financial support from the parent. During Q3FY2022 Dharamshila unit broke even. This hospital was a cancer focused unit run by a society prior to converting into a multi-specialty hospital. Due to the higher overheads associated with a multi-specialty hospital (due to introduction of new labs and departments and increase in doctor expense), the break-even took some time.

Credit challenges

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:

For the rated entity (NHHPL): Stretched

NHHPL's liquidity position remains stretched as characterised by free cash flows which continue to be negative at -17.6 crore in FY2021 compared to -1.7 crore in FY2020. This is on account of muted business performance and weak absorption of fixed cost by the company. NHL has infused funds into the company in the form of equity and would continue to support the company for any liquidity/ cash flow requirements going forward.

For the support provider (NHL): 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

The above rating assigned to the Rs. 66.0 crore bank facilities would remain sensitive to any movement in the rating or outlook of the guarantor Narayana Hrudayalaya Limited.

Positive factors: Any upward movement in the rating of the guarantor.

Negative factors: Any downward movement in the rating of the guarantor

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Hospitals Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	Parent/Group Company: Narayana Hrudayalaya Limited The assigned rating is based on an unconditional, irrevocable corporate guarantee extended by NSHPL's parent – Narayana Hrudayalaya Limited
Consolidation/Standalone	The ratings are based on the consolidated financial profile of NHL (Annexure – 2)

About the company

NSHPL was incorporated on in October 2010 as a private limited company and is currently a wholly owned subsidiary of NHL. The company operates a hospital in Mysore, Karnataka, and has partnered with Dharamshila Cancer Foundation & Research Centre to run a multi-speciality hospital in Delhi under a management contract from Q1 FY2018 onwards.

Key financial indicators (audited)

NSHPL – Standalone	FY2020	FY2021
Operating Income (Rs. crore)	201.1	194.3
PAT (Rs. crore)	-37.8	-26.8
OPBDIT/OI (%)	4.1%	3.7%
PAT/OI (%)	-18.8%	-13.8%
Total Outside Liabilities/Tangible Net Worth (times)	-38.6	-32.3
Total Debt/OPBDIT (times)	18.1	18.7
Interest Coverage (times)	0.4	0.4

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

About the Guarantor

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 of Guarantor (audited)

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 ¹ /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; 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 (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	Dec 31, 2021	May 10, 2021	Sep 14, 2020	March 27, 2020	
1 Fund Based – working capital	Long Term	15.0	8.9	[ICRA]AA-(CE) (Positive)	[ICRA]AA-(CE) (Stable)	[ICRA]AA-(CE) (Stable)	[ICRA]AA-(CE) (Stable)	[ICRA]AA-(CE) (Stable)	[ICRA]AA-(CE) (Stable)
2 Term Loan	Long Term	35.0	20.4	[ICRA]AA-(CE) (Positive)	[ICRA]AA-(CE) (Stable)	[ICRA]AA-(CE) (Stable)	[ICRA]AA-(CE) (Stable)	[ICRA]AA-(CE) (Stable)	[ICRA]AA-(CE) (Stable)
3 Non-Fund Based	Short Term	16.0	5.4	[ICRA]A1+(CE)	[ICRA]A1+(CE)	[ICRA]A1+(CE)	[ICRA]A1+(CE)	[ICRA]A1+(CE)	[ICRA]A1+(CE)
4 Unallocated	Long Term	-	-	-	Provisional [ICRA]AA-(CE) (Stable); Withdrawn	Provisional [ICRA]AA-(CE) (Stable)	Provisional [ICRA]AA-(CE) (Stable)	-	-
5 Unallocated	Short Term	-	-	-	[ICRA]A1+(CE)	Provisional [ICRA]A1+(CE)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund-based – Working Capital	Simple
Fund-based – Term Loan	Simple
Short term – Non-fund based	Very Simple

¹ Total debt includes lease liabilities minus cash and liquid investments.

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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Fund Based - Working Capital	NA	NA	NA	15.0	[ICRA]AA-(CE) (Positive)
NA	Term Loan	Sep-2017	NA	Oct-2027	35.0	[ICRA]AA-(CE) (Positive)
NA	Non-Fund based	NA	NA	NA	16.0	[ICRA]A1+(CE)

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	99.13%	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.	44.43%	Equity Method
ISO Healthcare	18.52%	Equity Method

Source: NHL annual report FY2021

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