September 29, 2022

Narayana Hrudayalaya Surgical Hospital Private Limited: [ICRA]AA-(CE) (Positive)/ [ICRA]A1+(CE) withdrawn and fresh rating of [ICRA]AA- (Positive)/ [ICRA]A1+ assigned

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Fund-based – Working Capital	15.00	15.00	[ICRA]AA-(CE) (Positive) withdrawn and [ICRA]AA- (Positive) assigned simultaneously
Fund-based – Term Loan	35.00	35.00	[ICRA]AA-(CE) (Positive) withdrawn and [ICRA]AA- (Positive) assigned simultaneously
Short term – Non-fund based	16.00	16.00	[ICRA]A1+(CE) withdrawn and [ICRA]A1+ assigned simultaneously
Total	**66.00**	**66.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has withdrawn its ratings of [ICRA]AA-(CE) (Positive)/ [ICRA]A1+(CE) for the bank facilities of Narayana Hrudayalaya Surgical Hospital Private Limited (NHSHPL) and has simultaneously assigned fresh ratings of [ICRA]AA- (Positive)/ [ICRA]A1+ for these facilities.

The withdrawal of the CE ratings is triggered by the Guidance Note and the FAQ document issued by the Reserve Bank of India (RBI) to credit rating agencies on April 22, 2022, and July 26, 2022, respectively, guiding that the benefit of a corporate guarantee that does not meet the evaluation mechanism/criteria defined by the RBI is not to be considered while assigning credit enhanced (CE) ratings[1]. The [ICRA]AA-(CE) (Positive)/ [ICRA]A1+(CE) ratings drew comfort from the presence of a corporate guarantee extended by NHL, parent of Narayana Hrudayalaya Surgical Hospital Private Limited (NHSHPL/the company), to the lenders of the rated bank facilities. For assigning the ratings, ICRA had assessed the attributes of the guarantee issued by Narayana Hrudayalaya Limited (NHL) in favour of the rated facility. The guarantee was legally enforceable, irrevocable, unconditional, covered the entire amount and tenor of the rated facility, and met all the attributes of a strong guarantee. Taking cognisance of the above, ICRA had assigned ratings of [ICRA]AA-(CE) (Positive)/ [ICRA]A1+(CE) to the said facility against the unsupported ratings of [ICRA]BBB+/[ICRA]A2+.

To align itself with the aforesaid regulatory guidance, ICRA would no longer be considering in its credit assessments the benefit of a guarantee that lacks an invocation and payment mechanism, though such a support represents a relatively stronger expression of commitment on the part of the support provider for the supported facilities in comparison to a support that is only implicit in nature.

Yet, the rating level for the bank facilities of the company (assigned afresh and being conveyed through this release) remains unchanged because of the change in ICRA's analytical approach. For arriving at the ratings, ICRA has now taken a consolidated view of NHSHPL along with its parent, NHL.

[1] The RBI has permitted the existing (CE) ratings to continue until the residual tenor of the loan. However, for the (CE) ratings outstanding on working capital facilities that are renewed periodically (like cash credit facilities that fall due for renewal at an annual frequency), the residual tenor of these facilities is to be considered as the time remaining until the next due date of renewal.

The change in approach is based on ICRA's view that NHSHPL is an integral part of NHL and operates like an extended arm of NHL. ICRA also draws comfort from NHL's long track record of support to NHSHPL and the close business, financial and management linkages between both the entities. ICRA expects the linkages between NHL and NHSHPL will remain strong on various dimensions, including business ties, financial aspects, and management support—that reinforce the application of the consolidated view approach.

The ratings consider the healthy improvement in Narayana Hrudayalaya Limited's (NHL /the Group/the company) financial profile in FY2022 and ICRA's expectations that the same would sustain, going forward. NHL's revenue improved to Rs. 3,701.3 crore in FY2022 against Rs. 2,583.0 crore in FY2021 (growth of 43.3% 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 17.8% in FY2022 from 13.6% in FY2020. The margin expansion was supported by improvement in the company's ARPOB, healthy ramp-up in surgical procedures 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 in FY2022. NHL's debt coverage indicators improved in FY2022 on the back of scheduled repayment of term loans and improvement in OPM with interest coverage at 9.9 times in FY2022 compared with 5.0 times in FY2020. Net debt[1]/ OPBDITA also improved to 0.8 times as on March 31, 2022, compared with 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 the 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 setting up an additional multi-speciality centre and a radiation oncology department. The ratings consider 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 factors in the stable occupancy level at its existing units and shorter ALOS, which have been enabling improved utilisation 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 and 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. 400-450 crore in FY2023 and is expected to raise incremental debt to partially fund the same. NHL is investing around USD 100 million in Cayman and countries surrounding Cayman. NHL has also recently acquired an orthopaedic hospital in Bengaluru from Shiva and Shiva Orthopaedic Hospital Private Limited (Shiva) for a consideration of Rs. 200 crore and will also be subscribing to Rs. 80 crore optionally convertible debentures of Shiva. Notwithstanding the strong growth in the profits from the existing Cayman unit, the leverage metrics are expected to deteriorate to a certain extent in the near to medium term, until the new facility stabilises and starts generating incremental profits. A mix of brownfield, greenfield and acquisition opportunities would be undertaken by NHL to grow in India. Future waves of Covid, if any, and its impact on the company would remain a key monitorable.

[1]*Net debt = total debt including lease liabilities minus cash and cash equivalents*

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 have helped NHL in partnering with Government bodies, not-for-profit trusts and charities, and private organisations to operate and manage their healthcare facilities. In addition to being a strong brand in India, NHL has also created good visibility for the brand in the 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 hospitals, 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 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 had reduced to 41% in FY2022 from 68% in FY2013, 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 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 Bengaluru) and Rabindranath Tagore International Institute of Cardiac Sciences (located in Kolkata) along with the Cayman unit. The contribution of the top-three hospitals to the consolidated revenues and OPBDITA reduced to a certain extent in FY2022, on the back of increasing contribution from the Cayman Island hospital unit and 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 the 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 the debt metrics deteriorated on account of decline in profitability in FY2021, the same revived in FY2022 and debt metrics showed significant improvement in FY2022. NHL's debt coverage indicators improved in FY2022, on the back of scheduled repayment of term loans and improvement in OPM with interest coverage at 9.9 times in FY2022 compared with 5.0 times in FY2020. Net debt[2]/ OPBDITA also improved to 0.8 times as on March 31, 2022, compared with 2.1 times as on March 31, 2020. Going forward, the Group has planned a capex outlay of ~Rs. 400-450 crore in FY2023 and is expected to raise incremental debt to partially fund the same. NHL is investing around USD 100 million in Cayman and countries surrounding Cayman. NHL has also recently acquired an orthopaedic hospital in

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

Bengaluru from Shiva and Shiva Orthopaedic Hospital Private Limited (Shiva) for Rs. 200 crore and will also be subscribing to Rs. 80 crore optionally convertible debentures of Shiva. 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 the existing Cayman unit, leverage metrics are expected to moderate to a certain extent in the near to medium term until the new facility stabilises and starts generating incremental profits.

Exposed to regulatory risks - 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 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 was used sparingly in FY2022. 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. 400-4500 crore in FY2023 and will be paying out a consideration of Rs. 200 crore for the recent acquisition, and is expected to raise incremental debt to partially fund the capex plans/acquisition. 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. 288.7 crore and liquid investments in mutual funds of Rs. 131.2 crore as on March 31, 2022. The total debt for the company as on March 31, 2022 is Rs. 798.5 crore. Repayment of existing debt is ~Rs. 96.7 crore in FY2023 and Rs. 90.9 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. A specific credit metric for an upgrade is if Net Debt/OPBITDA is less than 1.25 times, on a sustained basis.

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. A specific credit metric for a downgrade is if Net Debt/ OPBITDA is higher than 2.0 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Hospitals Policy on withdrawal of credit ratings
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of NHL.

About the company

NHL operates a chain of multi-specialty, 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 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 hospitals, 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 the Cayman Islands with total 6,181 operational beds along with the potential to reach a capacity of up to 6,845 beds.

NHSHPL was incorporated on in October 2010 as a private limited company and is 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

NHL Consolidated	FY2021	FY2022
Operating Income (Rs. crore)	2,583.0	3,701.3
PAT (Rs. crore)	-7.5	350.6
OPBDIT/OI (%)	7.3%	17.8%
PAT/OI (%)	-0.3%	9.5%
Total Outside Liabilities/Tangible Net Worth (times)	1.5	1.1
Total Debt[3]/OPBDIT (times)	3.7	0.8
Interest Coverage (times)	2.5	9.9

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

			Current Rating (FY2023)				Chronology of Rating History for the past 3 years			
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2022 (Rs. crore)		Date & Rating in	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					Sep 29, 2022	Apr 25, 2022	Dec 31, 2021	May 10, 2021	Sep 14, 2020	March 27, 2020
1	Fund Based – working capital	Long Term	15.0	-	[ICRA]AA-(CE) (Positive) withdrawn and [ICRA]AA-(Positive) assigned simultaneously	[ICRA]AA-(CE) (Positive)	[ICRA]AA-(CE) (Stable)	[ICRA]AA-(CE) (Stable)	[ICRA]AA-(CE) (Stable)	[ICRA]AA-(CE) (Stable)
2	Term Loan	Long Term	35.0	18.6		[ICRA]AA-(CE) (Positive)	[ICRA]AA-(CE) (Stable)	[ICRA]AA-(CE) (Stable)	[ICRA]AA-(CE) (Stable)	[ICRA]AA-(CE) (Stable)
3	Non-Fund Based	Short Term	16.0	-	[ICRA]A1+(CE) withdrawn and [ICRA]A1+ assigned simultaneously	[ICRA]A1+ (CE)	[ICRA]A1+ (CE)	[ICRA]A1+ (CE)	[ICRA]A1+ (CE)	[ICRA]A1+ (CE)

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

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

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 analysing 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, are 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) withdrawn and [ICRA]AA- (Positive) assigned simultaneously
NA	Term Loan	Sep-2017	NA	Oct-2027	35.0	
NA	Non-Fund based	NA	NA	NA	16.0	[ICRA]A1+(CE) withdrawn and [ICRA]A1+ assigned simultaneously

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
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
Reya health Inc (formerly Cura Technologies Inc.)	43.58%	Equity Method
ISO Healthcare	8.72%	Equity Method
Narayana Health North America LLC	100%	Full Consolidation

Source: *NHL annual report FY2022*

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ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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