

March 06, 2023

Narayana Hrudayalaya Limited: Long-term rating upgraded; short-term rating reaffirmed; outlook revised to Stable from Positive; rated amount enhanced

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|--------------------------------------|-------------------------------------|---|
| Long-term- Term Loan | 564.00 | 551.00 | [ICRA]AA upgraded from [ICRA]AA-; Outlook revised to Stable from Positive |
| Short-term- Non-fund Based | 35.00 | 45.00 | [ICRA]A1+ reaffirmed/assigned |
| Long-term/ short-term- Unallocated | 71.00 | 456.00 | [ICRA]AA upgraded from [ICRA]AA-; [ICRA]A1+ reaffirmed; assigned for enhanced amount; Outlook revised to Stable from Positive |
| Long-term/ short-term- Working capital | 80.00 | 80.00 | [ICRA]AA upgraded from [ICRA]AA-; [ICRA]A1+ reaffirmed; Outlook revised to Stable from Positive |
| Non-fund based- Working capital (sublimit)# | (40.00) | (58.00) | [ICRA]AA upgraded from [ICRA]AA-; [ICRA]A1+ reaffirmed; assigned for enhanced amount; Outlook revised to Stable from Positive |
| Long-term – Fund based CC | 50.00 | 68.00 | [ICRA]AA upgraded from [ICRA]AA- /assigned; Outlook revised to Stable from Positive |
| Total | 800.00 | 1,200.00 | |

*Instrument details are provided in Annexure-I

#sublimit of fund based working capital

Rationale

The upgrade in the long-term rating of Narayana Hrudayalaya Limited (NHL/the Group) factors in the improvement in its financial profile and ICRA's expectations that the same would sustain, going forward. In 9M FY2023, NHL witnessed 19.7% YoY revenue growth, supported by steady improvement in its occupancy and ARPOB¹ and gradual increase in international patient footfalls to near pre-Covid levels. While the company's Cayman operations were impacted due to travel restrictions during Q1 FY2023, the restrictions have since been lifted resulting in improvement in margins over the last two quarters.

NHL's operating profit margin (OPM) improved to 20.9% in 9M FY2023 from 17.8% in FY2022 supported by better case and payor mix, 9.4% YoY improvement in the ARPOB and healthy ramp-up in high-value elective procedures in addition to various cost reduction and efficiency measures undertaken by the company. In 9M FY2023, NHL's debt coverage indicators improved with interest coverage at 14.1 times compared with 9.9 times in FY2022. The Net Debt (excluding lease liabilities)/OPBDITA also improved to 0.3 times as on December 31, 2022, compared to 0.5 times as on March 31, 2022. NHL's liquidity profile was marked by cash and cash equivalents of Rs. 541.6 crore as on December 31, 2022, supported by significant undrawn lines of credit and financial flexibility to avail additional limits. Notwithstanding some moderation on account of the ongoing capex, NHL's liquidity is expected to remain adequate.

The ratings continue to factor NHL's established position in the healthcare sector and the significant brand equity of 'Narayana Health'. The company offers affordable healthcare at competitive pricing managed through cost efficiencies, driven by

¹ Average revenue per occupied bed

continued investments in technology and economies of scale. The ratings also derive comfort from the geographically diversified presence of the 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, neurosciences, orthopaedics and gastroenterology. ICRA takes note of NHL's business transfer agreement with Shiva and Shiva Orthopaedic Hospital Private Limited (Sparsh) for the acquisition of its orthopaedic and trauma hospital in Bengaluru. The hospital shall help NHL further diversify its presence in other specialties and offers strategic proximity to its Health City campus. NHL is also setting up an additional multi-specialty centre and a radiation oncology department in the Cayman Islands.

The ratings are, however, constrained by the high reliance of NHL on three flagship hospitals in India and the Cayman hospital in terms of revenue and profit generation. However, ICRA notes that the revenue dependence from the three hospitals has sequentially moderated with improvement in performance across its other hospitals. Among the three new units which were a drag on margins earlier, Dharamshila and Gurugram have achieved breakeven at the EBITDA level, while SRCC Mumbai is expected to attain breakeven soon.

The Group plans to incur capex of ~Rs. 1000.0 crore per year for FY2023 and FY2024, of which Rs. 680.0 crore has been invested in 9M FY2023. The capex is expected to be funded through a mix of debt and internal accruals. Around Rs. 800 crore of the aforementioned capex will be utilised for the construction of a new radiation oncology block and a greenfield multi-specialty hospital in the Cayman Islands. The radiation oncology block is expected to become operational in early Q1 FY2024 while the multi-specialty hospital is expected to start operations in H1 FY2025. While it is expected to provide a significant location advantage, the overall consolidated margins may be impacted in the initial quarters of the Cayman multi-specialty hospital's operations. Notwithstanding the healthy growth in profits from the existing Cayman unit, the 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. Expansion in India is expected to be done via a mix of brownfield, greenfield and acquisition opportunities.

The Stable outlook on the long-term rating reflects ICRA's expectations that NHL will continue to benefit from its strong market position, investments in technology and ramp-up of operations at new centres, thereby, supporting the credit profile of the company.

Key rating drivers and their description

Credit strengths

Established market position with extensive experience of promoters in the healthcare industry – NHL enjoys a strong market position in the healthcare services industry as an established brand, especially in the cardiac and renal sciences. Its goodwill and focus on patient affordability have helped it in partnering with Governmental bodies, not-for-profit trusts and charities, and private organisations to operate and manage their healthcare facilities. Dr. Devi Prasad Shetty, Chairman of Narayana Health, has an extensive experience of more than three decades and has received several awards like the Padma Shri and Padma Bhushan for his contributions in affordable healthcare.

Geographically diversified presence in the domestic market along with international presence – NHL has 47 healthcare facilities (6,121 operational beds) of which 19 (5,462 beds) are owned/operated, two (283 beds) are managed, four (266 beds) are heart centres, 21 (no beds) are primary healthcare facilities and one (110 beds) hospital is in the Cayman Islands. The company has strong brand recognition in Karnataka and eastern India, with an emerging presence in western, central and northern India. It also has an international presence with the establishment of Health City Cayman Islands (HCCI) in North America, where it is setting up an additional multi-specialty hospital and a radiation oncology block. Notwithstanding some moderation in margins during the ramp-up phase of the multi-specialty hospital, HCCI is expected to further strengthen its operations in the Cayman Islands.

Significant improvement in financial profile – In 9M FY2023, NHL witnessed 19.7% YoY revenue growth along with improvement in OPM to 20.9% (22.6% in Q3 FY2023) from 17.8% in FY2022. The improvement was a result of better case and payor mix with increased traction in complex elective surgeries, significant improvement in international patient footfalls to near pre-Covid levels, increased throughput due to investments in technology and digitisation and a marked improvement in

the performance of the new hospitals. Further, healthy cash accruals resulted in improvement in NHL's debt metrics with interest coverage at 14.1 times in 9M FY2023 compared with 9.9 times in FY2022 and Net Debt (excluding lease liabilities)/OPBDITA of 0.3 times as on December 31, 2022, compared with 0.5 times as on March 31, 2022. Cash, cash equivalents and liquid investments increased to Rs. 541.6 crore as on December 31, 2022, compared with Rs. 288.7 crore as on March 31, 2022.

Credit challenges

High dependence on top-three hospitals and the Cayman Island facility - A significant portion of NHL's consolidated 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 in Bengaluru) and Rabindranath Tagore International Institute of Cardiac Sciences (Kolkata) and the Cayman unit. In 6M FY2023, 38% of the revenues and 52% of the consolidated EBITDA were contributed by the top-three hospitals against 41% and 87%, respectively, in FY2020. That said, with improvement in operations of the new hospitals and the proposed expansion plans, the dependence is expected to reduce further in the medium to long term.

Significant debt-funded capex plans – NHL has a planned capital outlay of Rs. 2,000.0 crore (Rs. 1,000 crore per year) for FY2023 and FY2024, which is expected to be funded partially through debt. This includes a capex of ~Rs. 555 crore towards replacement/maintenance, ~Rs. 228 crore towards brownfield expansion, Rs. 421 crore towards greenfield expansion (including Rs. 200.0 crore towards acquisition from Sparsh) and Rs. 800.0 crore towards expansion in the Cayman Islands, primarily towards the greenfield multi-specialty hospital and a new radiation oncology block. Debt metrics of NHL are expected to slightly moderate in FY2024 with an expected increase in debt levels for partially funding the capex, however, NHL is expected to continue to maintain a healthy financial profile, supported by robust accrual generation.

Exposure 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, the company's established market position is expected to aid growth, going forward.

Liquidity position: Adequate

The Group's operational cash inflows over the next twelve months, existing cash and liquid investments 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 working capital facility of around Rs. 148 crore, which was used sparingly during 9M FY2023. The Group is expected to incur total capex of Rs. 2,000.0 crore in FY2023 and FY2024 and is expected to raise incremental debt to partially fund the same. The company had free cash, bank balance and liquid investments of Rs. 541.6 crore as on December 31, 2022. The total debt (excluding lease liability) for the company as on December 31, 2022, was Rs. 775.8 crore. Repayment on the existing debt is Rs. 110.2 crore in FY2023 and Rs. 126.8 crore in FY2024. ICRA expects the Group to meet its near-term and medium-term commitments through internal sources of cash and incremental debt.

Rating sensitivities

Positive factors – Positive triggers include significant improvement in earnings, debt metrics and liquidity position supported by healthy ramp-up of newer units resulting in reduced dependence on the flagship hospital units.

Negative factors – Negative triggers include material deterioration in profitability and debt metrics of the company on account of sustained delay in achieving profitability at the new units. A specific credit metric for a downgrade is if Net Debt/OPBDITA is higher than 1.5 times, on a sustained basis.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|--|
| Applicable rating methodologies | Corporate Credit Rating Methodology ICRA's Rating methodology for Hospitals |
| Parent/Group support | Not Applicable |
| Consolidation/Standalone | For arriving at the ratings, ICRA has considered the consolidated financials of NHL along with its operational subsidiaries and associate companies (mentioned in Annexure-2) on account of the strong business and financial linkages among these entities. |

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 like 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 and enters into management agreements with hospitals under which the Group acquires the operating control of the hospitals. It has 47 healthcare facilities (6,121 operational beds) of which 19 (5,462 beds) are owned/operated, two (283 beds) are managed, four (266 beds) are heart centres, 21 (no beds) are primary healthcare facilities and one (110 beds) hospital is in the Cayman Islands. NHL has a strong presence in the southern state of Karnataka and eastern India, with an emerging presence in western, central and northern India.

Key financial indicators (audited)

| NHL Consolidated | FY2021 | FY2022 | 9M FY2023 |
|--|---------|---------|-----------|
| Operating income | 2,583.0 | 3,701.3 | 3,303.2 |
| PAT | -7.5 | 350.6 | 433.5 |
| OPBDIT/OI | 7.3% | 17.8% | 20.9% |
| PAT/OI | -0.3% | 9.5% | 13.1% |
| Total outside liabilities/Tangible net worth (times) | 1.5 | 1.1 | - |
| Total debt/OPBDIT (times) | 4.8 | 1.2 | - |
| Interest coverage (times) | 2.5 | 9.9 | 14.1 |

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

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 Dec 31, 2022 (Rs. crore) | Date & rating in FY2023 | | Date & rating in FY2022 | Date & rating in FY2021 | | |
| | | | | Mar 6, 2023 | April 25, 2022 | April 15, 2021 | Sep 14, 2020 | July 3, 2020 | |
| 1 | Term loans | Long term | 551.0 | 551.0 | [ICRA]AA (Stable) | [ICRA]AA- (Positive) | [ICRA]AA- (Stable) | [ICRA]AA- (Stable) | [ICRA]AA- (Stable) |
| 2 | Non-Fund Based | Short term | 45.0 | - | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ |
| 3 | Unallocated | Long/ Short Term | 456.0 | - | [ICRA]AA (Stable)/ [ICRA]A1+ | [ICRA]AA- (Positive) / [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- (Positive) / [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 | (58.0) | - | [ICRA]AA (Stable)/ [ICRA]A1+ | [ICRA]AA- (Positive) / [ICRA]A1+ | [ICRA]AA- (Stable) / [ICRA]A1+ | [ICRA]AA- (Stable) / [ICRA]A1+ | [ICRA]AA- (Stable) / [ICRA]A1+ |
| 6 | Fund based CC | Long term | 68.0 | - | ICRA]AA (Stable) | ICRA]AA- (Positive) | ICRA]AA- (Stable) | ICRA]AA- (Stable) | - |

*Sublimit of working capital facility

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|--|----------------------|
| Long Term- Term Loan | Simple |
| Short Term- Non-fund Based | Simple |
| Long Term/ Short Term- Unallocated | NA |
| Long Term/ Short Term- Working Capital | Simple |
| Non-Fund Based- Working Capital (sublimit) | Simple |
| Long Term – Fund based CC | 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: [Click Here](#)

Annexure I: Instrument details

| ISIN | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|------|--|------------------|-------------|----------|--------------------------|---------------------------------|
| NA | Long Term- Term Loan | FY2018 | NA | FY2029 | 551.0 | [ICRA]AA (Stable) |
| NA | Short Term- Non-fund Based | NA | NA | NA | 45.0 | [ICRA]A1+ |
| NA | Long Term/ Short Term Unallocated | NA | NA | NA | 456.0 | [ICRA]AA (Stable)/ [ICRA]A1+ |
| NA | Long Term/ Short Term Working Capital | NA | NA | NA | 80.0 | [ICRA]AA (Stable)/ [ICRA]A1+ |
| NA | Non-Fund Based- Working Capital (sublimit) | NA | NA | NA | (58.0) | [ICRA]AA (Stable)/ [ICRA]A1+ |
| NA | Fund based - Cash Credit | NA | NA | NA | 68.0 | ICRA]AA (Stable) |

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: 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 |
| 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 |

Source: Company; as on February 28, 2023

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