June 26, 2023

Indira IVF Hospital Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer rating	NA	NA	[ICRA]A (Stable); reaffirmed
Total	**NA**	**NA**	

**Instrument details are provided in Annexure-I*

Rationale

For arriving at the rating, ICRA has taken a consolidated view of Indira IVF Hospital Private Limited (IIHPL or the company) and Spaceway Wellness Private Limited (Spaceway), a special purpose vehicle (SPV) wherein 53% stake is held by the promoters of IIHPL and 47% by TA Asia Pacific Acquisitions Limited. IIHPL and Spaceway are to be collectively referred to as "Group" hereafter, given the significant linkages between them, and the planned merger of Spaceway into IIHPL over the near term.

The rating reaffirmation considers the strong business profile of IIHPL characterised by established brand presence in the Indian in-vitro fertilisation (IVF) industry. With its promoters having over a decade's experience in the IVF industry, the company has a proven track record and is one of the leading IVF players in the country. IIHPL has demonstrated strong revenue growth over the years, backed by significant increase in footprint and the consequent growth in the number of cycles of IVF. Moreover, the short turnaround time for newly launched centres to reach breakeven given the high throughput and asset-light business model, further supports the financial performance. The Group witnessed 31.3% YoY revenue growth in FY2023 supported by the addition of nine new centres and growth in IVF cycles by 18%. It has also maintained healthy profitability metrics over the years with operating profit margin of 33.9% in FY2023. The Group had cash and liquid investment balances of ~Rs. 195 crore as on March 31, 2023, indicating a comfortable liquidity position. IIHPL also benefits from the steady inflow of specialist doctors trained at its own training institute, helping the company grow faster while being profitable. ICRA also takes note of the favourable demand outlook for the IVF industry, with late marriages, rising infertility rate and greater awareness of infertility treatments. As IIHPL plans to continue its expansion drive within India as well as overseas, the company is expected to benefit from the same; however, its impact on IIHPL's profitability remains a key monitorable.

ICRA notes the sizeable fund raise by the Group in FY2023 wherein Spaceway availed a term loan of Rs. 1,150 crore to fund the acquisition of 26% stake in IIHPL for providing exit to two erstwhile shareholders. Outstanding balance of the term loan as of March 31, 2023, was ~Rs. 442 crore. Although such sizeable debt addition moderated the coverage indicators as of March 31, 2023 (net debt/OPBDITA of 1.5x as of March 31, 2023[1] against net cash position in the previous years), the steady cash flow generation and comfortable liquidity position is expected to result in gradual improvement of leverage and coverage indicators over the near term. Any significant debt-funded capex or major inorganic expansion continues to remain an event risk and would be evaluated on a case-to-case basis. Further, ICRA notes that TA Asia Pacific Acquisitions Limited is looking for partial exit of its investment in IIHPL, for which exit options are currently under discussions.

IIHPL stands exposed to the regulatory risks inherent to the industry. Assisted Reproductive Technology (Regulation) Act, 2021, came into effect from January 25, 2022, and these aim at regulation and supervision of ART clinics. Restriction of one donor supply to one recipient is one of the regulations, which has impacted donor supply in the industry and increased the donor cost to a certain extent. That said, IIHPL is focusing to improve the patient (self) cycles to prevent any demand–supply mismatch. While demand shift expected towards organised players with increasing regulations, the impact of tightened

[1] *Provisional*

policies on the Group and industry will remain a key monitorable. The Indian IVF industry is intensely competitive, with the company facing competition from both specialised IVF players as well as multi-speciality hospital chains providing fertility services. Nevertheless, the dominant position of the company with an established track record is expected to support the business prospects of the company.

The Stable outlook on the long-term rating reflects ICRA's expectation that the Group will continue to benefit from its leading market position in the Indian IVF industry, thereby resulting in healthy cash generation and, thus, an improvement in coverage metrics, going forward.

Key rating drivers and their description

Credit strengths

Strong business profile characterised by established brand position in the Indian IVF industry and vast experience of promoters – IIHPL's business profile is characterised by its established brand position in the Indian IVF industry with a pan India presence and market dominance in northern and western India. The company benefits from the vast experience of its promoters, with Dr. Ajay Murdia spearheading the enterprise. IIHPL has shown significant growth momentum in the past years, driven by significant increase in footprint and increase in the number of IVF cycles. As the company continues its expansion through pathology labs, opening new centres in India, Nepal and Bangladesh, revenue growth is expected to remain healthy. However, impact of profitability, if any, remains a key monitorable.

Financial profile characterised by strong revenue growth and margins – During FY2023, the Group reported strong revenue growth of 31.3% on a YoY basis with healthy operating profit margin of 33.9%. Going forward, the Group is expected to maintain healthy revenue growth and operating profit margin of over 30%, supported by addition of new centres and consequent increase in IVF cycles. This will aid steady cash flow generation resulting in comfortable liquidity position. Further, the company is expected to maintain a negative working capital cycle supported by customer advances.

Favourable demand outlook for the IVF industry – The demand outlook for the IVF industry remains favourable in India, with several factors such as increase in the trend of late marriages, increased pregnancy age, rising infertility rate, greater awareness on infertility treatments and technological advancement leading to an increased success rate for the IVF treatment. Further with increasing regulations in the industry, there is a demand shift expected towards organised players. IIHPL, along with other organised players, is expected to benefit from the same, thereby supporting its revenue growth and profitability, going forward.

Credit challenges

Moderate debt profile – The Group's leverage increased in FY2023 due to fresh term loan of Rs. 1,150 crore availed by Spaceway for funding the acquisition of 26% stake in IIHPL for providing exit to the two erstwhile shareholders. However, the Group repaid ~60% of its term debt in FY2023 through its existing cash reserves and business accruals. As of March 31, 2023, the gross debt[2] of the Group including lease liabilities was ~Rs. 814 crore. Net debt/OPBDITA moderated to 1.5x as of March 31, 2023, against net cash position in the previous years. Going forward, repayment of debt through steady cash flow generation supported by healthy operating margins will result in gradual improvement in the debt indicators over the medium term. That said, any significant debt-funded expansion, which could impact the Group's debt metrics remains a key monitorable.

Exposure to regulatory risks inherent in the sector – Akin to the other players, IIHPL stands exposed to the regulatory risks inherent to the industry. The IVF industry is now exposed to the Assisted Reproductive Technology (Regulation) Act, 2021, which aims at the regulation and supervision of ART clinics and banks, limit on donor supply and embryo transfer to ensure

[2] *Excluding lease liabilities, provisional gross debt was ~Rs. 442 crore as of March 31, 2023.*

prevention of misuse, and safe and ethical practice of ART services. One of the regulations include restriction of one donor supply to one recipient, which has impacted donor supply in the industry and increased the donor cost to a certain extent. However, the IIHPL is also focusing on improving the patient (self) cycles and reducing the donor cycles to prevent any demand-supply mismatch. The impact of the ART regulations on the company and the industry will continue to remain a key monitorable. Further, while the industry does not have any pricing caps as on date, any adverse regulation impacting pricing power of the industry players may result in moderation of the revenue and profitability metrics of the Group.

High competitive intensity – The Indian IVF industry is intensely competitive, with IIHPL facing competition from both specialised IVF players as well as multi-speciality hospital chains, which offer fertility services. Certain degree of competition is also observed from the local/ fragmented IVF players. Such intense competition may result in moderation in profit margins, although the dominant position of the company with an established track record is expected to support the business prospects of the company.

Liquidity position: Adequate

The Group's liquidity profile is adequate, supported by free cash, bank balance and liquid investments of ~Rs. 195 crore as on March 31, 2023. The upcoming long-term debt repayments including expected additional prepayments are ~Rs. 177 crore in FY2024, ~Rs. 211 crore in FY2025 and ~Rs. 55 crore in FY2026. The Group is also expected to incur capex of ~Rs. 55-60 crore in FY2024 to meet its domestic and international expansion needs; capex outflows thereafter will depend on its future expansion plans. Overall, ICRA expects the Group to be able to service its repayment obligations and capital commitments from the available liquidity buffer and continued healthy cash flow generation.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if there is substantial revenue growth while maintaining the strong profitability levels, and demonstrating improvement in debt metrics, on a sustained basis.

Negative factors – Pressure on ratings could arise with significant contraction in revenues/profit margins or weakening of coverage or return indicators owing to sizeable debt-funded organic/inorganic expansion. Specific trigger for a rating downgrade would be Net debt/OPBDITA of more than 2.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Approach - Consolidation
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of IIHPL and Spaceway.

About the company

Starting out as a standalone clinic in Udaipur, Rajasthan, by Dr. Ajay Murdia in 1988, IIHPL was incorporated in FY2015 for providing medical treatment for infertility issues in both males and females, performing IVF, intra-uterine insemination (IUI) and other allied treatments. IIHPL has now grown into one of the leading fertility chains in India with 116 centres across the country. The fertility centres are equipped with advanced technologies to cater to infertility treatments like IVF, laser assisted hatching, cryopreservation, intracytoplasmic sperm injection (ICSI), IUI, blastocyst culture and transfer, laparoscopy, hysteroscopy, including donor programmes.

Spaceway was incorporated on January 25, 2022. It is a special purpose vehicle through which 26% stake was acquired in IIHPL and exit was provided to two erstwhile shareholders.

Key financial indicators (audited)

IIHPL Consolidated	FY2021	FY2022	FY2023*
Operating income	649.3	928.0	1,218.4
PAT	132.5	172.3	179.6
OPBDIT/OI	34.8%	32.5%	33.9%
PAT/OI	20.4%	18.6%	14.7%
Total outside liabilities/Tangible net worth (times)	0.9	0.9	-3.9
Total debt/OPBDIT (times)	1.2	1.1	2.0
Interest coverage (times)	8.2	11.4	4.2

**Provisional; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes, and amortisation; Amount in Rs. crore; All amounts as per ICRA calculations*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Jun 26, 2023	Apr 14, 2022	--	--
1	**Issuer Rating**	Long Term	-	-	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	--	--

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	Not Applicable

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	**Issuer Rating**	NA	NA	NA	NA	[ICRA]A(Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Spaceway Ownership	Consolidation Approach
Indira IVF Hospital Private Limited	26.00%	Full Consolidation

Note: ICRA has taken a consolidated view of Spaceway and IIHPL while assigning the ratings.

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 5328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Mythri Macherla
+91 22 6114 3435
mythri.macherla@icraindia.com

Seetha Pillai
+91 80 4332 6411
seetha.pillai@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6169 3304
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

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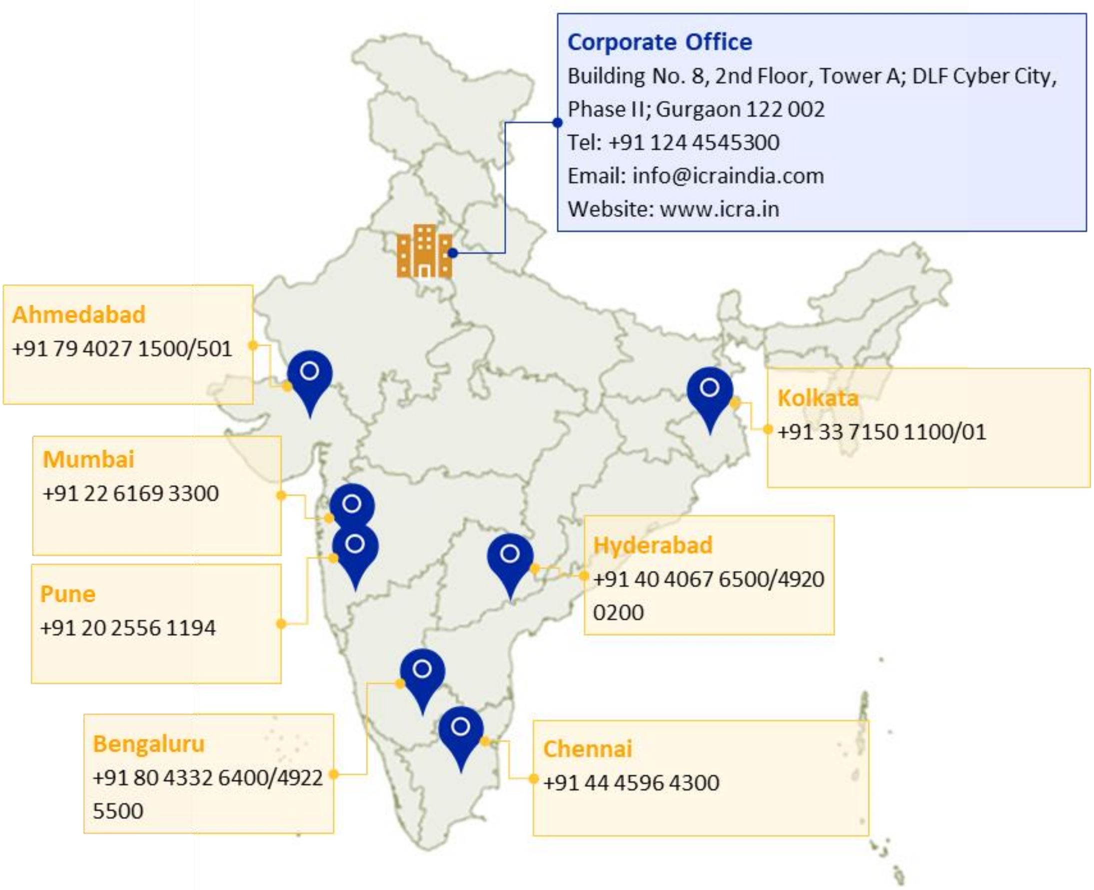

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