February 02, 2024 (Revised)

Narayana Hrudayalaya Limited: Ratings reaffirmed and assigned; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term- Term loan	551.00	617.00	[ICRA]AA (Stable); reaffirmed and assigned for enhanced amount
Short-term- Non-fund based	45.00	45.00	[ICRA]A1+; reaffirmed
Long-term/ short-term- Unallocated	456.00	1,058.00	[ICRA]AA (Stable)/ [ICRA]A1+; reaffirmed and assigned for enhanced amount
Long-term/ short-term- Working capital	80.00	80.00	[ICRA]AA (Stable)/ [ICRA]A1+; reaffirmed
Non-fund based- Working capital (sublimit)#	(58.00)	(90.00)	[ICRA]AA (Stable)/ [ICRA]A1+; reaffirmed and assigned for enhanced amount
Long-term – Fund based CC	68.00	100.00	[ICRA]AA (Stable); reaffirmed and assigned for enhanced amount
Non-convertible debenture	-	300.00	[ICRA]AA (Stable); assigned
Total	**1,200.00**	**2,200.00**	

**Instrument details are provided in Annexure-I*
#sublimit of fund based working capital

Rationale

The reaffirmation of ratings for Narayana Hrudayalaya Limited (NHL/the Group) continues to consider 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 Group across India, with a strong presence in Karnataka and East India, as well as its diversified operational specialities ranging from cardiac care and renal sciences to oncology, neurosciences, orthopaedics and gastroenterology. NHL's acquisition of the orthopaedic and trauma hospital in Bengaluru (Shiva and Shiva Orthopaedic Hospital Private Limited, Sparsh) enabled the group to further diversify its presence in other specialities, which offers strategic proximity to its Health City campus. NHL also added a radiation oncology department in Q1 FY2024 and is setting up an additional multi-specialty centre in the Cayman Islands.

ICRA has also factored in NHL's strong financial profile while reaffirming the ratings. In FY2023 and H1 FY2024, NHL witnessed YoY revenue growth of 22.4% and 16.7%, respectively. This growth was supported by a steady improvement in its ARPOB[1], gradual increases in both domestic and international patient footfalls, enhancement of the payor mix and steady performance improvement of the relatively newer hospitals. The Cayman operations registered YoY revenue growth of 18.5% and ~23% in FY2023 and H1 FY2024, respectively. The revenue growth can be attributed to the increase in patient footfalls along with incremental investments by the company to increase its presence in the Cayman Islands. NHL's operating profit margin (OPM) improved to 21.6% in FY2023 and 22.8% in H1 FY2024 from 17.8% in FY2022. This improvement was supported by better case and payor mix, healthy ramp-up in high-value elective procedures and various cost reduction and efficiency measures undertaken by the company. In FY2023 and H1 FY2024, NHL's debt coverage indicators improved with interest coverage at

[1] *Average revenue per occupied bed*

14.1 times and 13.2 times, respectively, compared to 9.9 times in FY2022. Additionally, total debt/OPBDITA stood at 1.0 times as on March 31, 2023 and 0.9 times as on September 30, 2023, against 1.2 times as on March 31, 2022. NHL's liquidity profile was marked by cash and cash equivalents of Rs. 860.0 crore as on September 30, 2023, supported by significant undrawn credit lines and financial flexibility to avail additional limits.

The ratings are, however, constrained by NHL's high reliance on three flagship hospitals in India and the Cayman Islands, 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. Dharamshila, SRCC Mumbai and the superspeciality hospital in Gurugram, which were previously a drag on margins, have achieved breakeven at the operating level. These units are expected to reach sustainable levels of margins going forward. Further, in line with other industry players, NHL's performance remains exposed to the risk of adverse regulatory measures and stiff competition in the healthcare industry.

The Group plans to incur capex of ~Rs. 1,200.0 crore in FY2024, of which ~Rs. 310.0 crore has already been invested in H1 FY2024. Around Rs. 500-600 crore of the FY2024 capex outflow will be utilised towards the construction of a greenfield multi-specialty hospital in the Cayman Islands which is expected to start operations in H1 FY2025. While it is expected to provide a significant location advantage to the Group, the overall consolidated margins may be impacted in the initial quarters of the Cayman multi-specialty hospital's operations. In FY2025, NHL is expected to continue to incur sizeable capex towards commencement of construction of its new greenfield projects in Kolkata and Bengaluru. Further, the Group is expected to continue to incur capex towards brownfield expansion and maintenance to the tune of ~Rs. 420-450 crore every fiscal. The capex is expected to be funded through a mix of debt and internal accruals. Given the sizeable and planned capex, the Group's debt metrics are expected to witness some moderation in the near term. That said, given the Group's strong earnings capability, debt metrics are expected to remain healthy despite the expected incremental debt to be availed.

The Group has a track record of growing and diversifying through strategic acquisitions. Any significant debt-funded acquisition, impacting the company's credit metrics, remains an event risk and would be evaluated on a case-by-case basis.

Further, ICRA notes that the company has incorporated two new subsidiaries and has ventured into the health and wellness management segment, as well as the insurance segment. Going forward, the quantum of investments and the amount of cash burn in these new ventures will be a key rating monitorable.

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 Group's credit profile.

Key rating drivers and their description

Credit strengths

Significant market position with focus on affordability for patients – 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 helped it in partnering with Government 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 extensive experience of more than three decades and has received several awards such as the Padma Shri and Padma Bhushan for his contributions to affordable healthcare.

Geographically diversified operations coupled with international presence – NHL has 40 healthcare facilities (5,821 operational beds) of which 18 (5,346 beds) are owned/operated, one (178 beds) is managed, three (187 beds) are heart centres, 17 (no beds) are primary healthcare facilities and one (110 beds) hospital is in the Cayman Islands. The company has a 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-speciality hospital. Notwithstanding some moderation in margins during the ramp-up phase of the multi-speciality hospital, HCCI is expected to further strengthen its operations in the Cayman Islands.

Significant improvement in financial profile – In FY2023, NHL witnessed 22.4% and 16.7% YoY growth in FY2023 and H1 FY2024 respectively, along with the improvement in OPM to 21.6% in FY2023 and 22.8% in H1 FY2024 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-19 levels, increased throughput due to investments in technology and digitisation and an improvement in the performance of the new hospitals. Further, the Group's cash, cash equivalents and liquid investments increased to Rs. 619.3 crore as on March 31, 2023, and Rs. 860.0 crore as on September 30, 2023, compared to 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 operating profit 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), as well as the Cayman unit. In H1 FY2024, a sizeable portion of the consolidated revenues and operating profit were contributed by the top three hospitals in India. ICRA notes that while NHL is largely dependent on the performance of these flagship facilities, the dependence has reduced significantly over the last few years.

Significant debt-funded capex plans – NHL has a planned capital outlay of ~Rs. 1,200 crore for FY2024 and is also expected to incur sizeable capex in FY2025, which will be funded partially through debt. The capex for FY2024 and FY2025 includes replacement/maintenance and brownfield expansion, setting up two greenfield facilities (one each in Kolkata and Bengaluru) and towards expansion in the Cayman Islands, primarily towards the greenfield multi-specialty hospital. Debt metrics of NHL are expected to slightly moderate in FY2024 and FY2025 with an expected increase in debt levels for partially funding the capex. That said, given the Group's strong earnings capability, the debt metrics are expected to remain healthy despite the incremental debt which is expected to be availed.

Exposure to regulatory risks – Regulatory risks pertaining to restrictive pricing regulations levied by the Central and state government organisations could constrain the company's profit margins.

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 expenditures and debt servicing obligations over this period. Further, the Group has a total working capital facility of around Rs. 168 crore, which was used sparingly during H1 FY2024. The Group is expected to incur a total capex of Rs. 1,200 crore in FY2024 and sizeable capex in FY2025 and is expected to raise incremental debt to partially fund the same. The company had free cash, bank balance and liquid investments of Rs. 860.0 crore as on September 30, 2023. The total debt (excluding lease liability) for the company as on September 30, 2023, was Rs. 960.9 crore. Repayment on the existing debt is Rs. 123.1 crore in FY2024 and Rs. 208.2 crore in FY2025. ICRA expects the Group to meet its near-term and medium-term commitments through internal cash sources and incremental debt.

Rating sensitivities

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

Negative factors – Pressure on the ratings may emerge in case of material deterioration in profitability and debt metrics of the company on account of sustained delay in achieving profitability at the new units. Specific credit metrics which could lead to a downgrade include net debt / OPBITDA 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-speciality, 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 and enters into management agreements with hospitals. As per the agreements, the Group acquires the operating control of these hospitals. It has 40 healthcare facilities (5,821 operational beds) of which 18 (5,346 beds) are owned/operated, one (178 beds) is managed, three (187 beds) are heart centres, 17 (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	FY2022	FY2023	H1 FY2024*
Operating income	3,701.3	4,529.7	2,538.7
PAT	350.6	606.8	410.7
OPBDIT/OI	17.8%	21.6%	22.8%
PAT/OI	9.5%	13.4%	16.2%
Total outside liabilities/Tangible net worth (times)	1.1	0.9	0.9
Total debt/OPBDIT (times)	1.2	1.0	0.9
Interest coverage (times)	9.9	14.1	13.2

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

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 September 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021		
					Feb 2, 2024	Mar 6, 2023	April 25, 2022	April 15, 2021	Sep 14, 2020	July 3, 2020	
1	Term loans	Long term	617.0	617.0	[ICRA]AA (Stable)	[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+	[ICRA]A1+	
3	Unallocated	Long/ Short Term	1,058.0	-	[ICRA]AA (Stable)/ [ICRA]A1+	[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 (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	(90.0)	-	[ICRA]AA (Stable)/ [ICRA]A1+	[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	100.0	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-	
7	Non-convertible debenture	Long term	300.0	-	[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	Very Simple
Long term/ Short term- Unallocated	NA
Long term/ Short term- Working capital	Simple
Non-Fund based- Working capital (sublimit)	Very Simple
Long term – Fund based CC	Simple
Non-convertible debenture	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	617.0	[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	1,058.0	[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	(90.0)	[ICRA]AA (Stable)/ [ICRA]A1+
NA	Fund based - Cash Credit	NA	NA	NA	100.0	ICRA] AA (Stable)
Yet to be placed	Non-convertible debenture	NA	NA	NA	300.0	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 Hospitals Pvt Ltd	100%	Full Consolidation
Narayana Vaishno Devi Speciality Hospitals Pvt Ltd	100%	Full Consolidation
NH Integrated Care Private Limited	100%	Full Consolidation
Athma Healthtech Private Limited	100%	Full Consolidation
Health City Cayman Islands Ltd (HCCI)	100%	Full Consolidation
ENT in Cayman Ltd.	100%	Full Consolidation
Cayman Integrated Healthcare Limited	100%	Full Consolidation
NH Health Bangladesh private Limited	100%	Full Consolidation
Narayana Holdings Private Limited	100%	Full Consolidation
Narayana Health North America LLC	100%	Full Consolidation
Reya health Inc (formerly Cura Technologies Inc.)	43.58%	Equity Method
ISO Healthcare	20.00%	Equity Method

Source: Company; as on March 31, 2023

Corrigendum

Rationale dated Feb 02, 2024, has been corrected with revisions as detailed below:

In Complexity Indicators table, the complexity indicator for short term- Non-fund Based & Non-Fund based- Working capital (sublimit) have been changed from Simple to Very Simple.

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