January 20, 2025 (Revised)

Narayana Hrudayalaya Surgical Hospital Private Limited: Ratings reaffirmed

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 (Stable); reaffirmed
Fund-based – Term loan	15.00	-	-
Short term – Non-fund based	16.00	16.00	[ICRA]A1+; reaffirmed
Long Term/ Short Term - Unallocated	20.00	35.00	[ICRA]AA (Stable)/[ICRA]A1+; reaffirmed
Total	**66.00**	**66.00**	

**Instrument details are provided in Annexure-I*

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 as well as its diversified operational specialities including cardiac care, renal sciences, oncology, neurosciences, orthopaedics and gastroenterology.

ICRA has also factored in NHL's strong financial profile while reaffirming the ratings. In FY2024 and H1 FY2025, NHL witnessed YoY revenue growth of ~10.8% and ~8.0%, respectively supported by a steady improvement in its ARPOB[1], sequentially increasing occupancy, improvement in the payor mix and steady improvement in performance of its newer hospitals. NHL's Cayman operations registered a YoY revenue growth of ~12.8% in FY2024 driven by an increase in patient footfalls and operationalisation of new radiation oncology block in May 2023. For H1 FY2025, NHL's revenues from its Cayman operations remained largely flattish due to the combined effects of transitioning to the new hospital and the hurricanes that impacted the Cayman Islands.

NHL's operating profit margin (OPM) improved to 23.0% in FY2024 from 21.6% in FY2023. This improvement was driven by increased throughput, digitization, better case and payor mix, ramp-up in high-value elective procedures, and various efficiency measures undertaken by the company. However, the margin declined marginally to 22.3% in H1 FY2025 due to the muted performance of Cayman Islands. During FY2024 and H1 FY2025, NHL's debt coverage indicators moderated, with interest coverage at 11.9 times and 8.9 times, respectively, compared to 14.1 times in FY2023. Additionally, the total debt/OPBDITA ratio stood at 1.5 times as of March 31, 2024, and 1.4 times as of September 30, 2024, compared to 1.0 times as of March 31, 2023 on account of the ongoing partially debt-funded capex. NHL's liquidity profile remained strong, marked by cash and cash equivalents of ~Rs. 1,103.5 crore as of September 30, 2024. This was 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 for revenue and profit generation. However, ICRA notes that the revenue and profit dependence on these three hospitals has sequentially moderated, with improved performance across its other hospitals. Most Indian hospitals have now broken even and started contributing to profits. Further, in line with other industry players, NHL's performance remains exposed to the risk of adverse regulatory measures.

[1] Average revenue per occupied bed

The Group has started to invest aggressively in capacity expansion and plans to incur capex of Rs. 1,400 to 1,600.0 crore in FY2025. In FY2026 to FY2029, NHL is expected to continue to incur sizeable capex towards commencement of construction of its new greenfield projects in Kolkata and Bengaluru. The capex is expected to be funded through a mix of debt and internal accruals. Given the sizeable 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.

NHL has also ventured into the primary healthcare and wellness segment, combined with the insurance sector, through its two wholly-owned subsidiaries – NH Integrated Care Private Limited (NHIC) and Narayana Health Insurance Limited (NHIL). NHIC operates on a subscription-based model, providing free preliminary consultations and providing discounts on medication and various lab tests for the entire family. NHIL provides a comprehensive health insurance plan combined with an integrated care program. Both initiatives are currently in their nascent stages. Being in the investment phase, with the company plans to incur a capital expenditure of Rs. 25 to 30 crore each fiscal on these initiatives. In H1 FY2025, NHL recorded a cash burn of approximately Rs. 50 crore (including capex) towards NHIC and NHIL and is expected to witness a similar cash burn in H2 FY2025. 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 hospitals, thereby, supporting the Group's credit profile.

Key rating drivers and their description

Credit strengths

Healthy 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. It has been expanding its core specialty areas to include oncology, neurology and neurosurgery, orthopedics, and gastroenterology. NHL has developed comprehensive cancer care services at multiple locations like Bengaluru, Mysore, Delhi, Gurugram, Jaipur, Katra, Howrah, and Raipur. 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 with presence all over India - NHL has network of 40 healthcare facilities (~5,789 operational beds) as on September 30, 2024, of which 19 hospitals (5,551 beds) are owned/operated, 2 (128 beds) are heart centres, 18 (no beds) are primary healthcare facilities including Clinics and Dialysis Centre and 1 (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. NHL also has an international presence with the establishment of Health City Cayman Islands (HCCI) in North America. HCCI is in the process of commencing operations at an additional multi-specialty ~50-bed hospital, providing tertiary, critical care, and day-care services, with a focus on outpatient services. Despite some moderation in margins during the ramp-up phase of the new hospital, HCCI is expected to further strengthen its operations in the Cayman Islands.

Strong financial profile - NHL witnessed 10.8% and 8.0% YoY revenue growth in FY2024 and H1 FY2025 respectively. This growth was supported by a steady improvement in its ARPOB, sequentially increasing occupancy, improvement in the payor mix and steady improvement in performance of the relatively newer hospitals. That said, the growth in H1 FY2025 was impacted to a certain extent due to decline in footfalls from the international business, which experienced a ~19% YoY reduction due to a sharp decline in footfall from Bangladesh, attributed to the geopolitical situation. NHL's OPM improved to 23.0% in FY2024 and 22.3% in H1 FY2025 compared to 21.6% in FY2023 on the back of growth across hospitals, including both flagship and new units. Key factors supporting margins included increased throughput, reduced consumption costs, better case and payor mix, healthy ramp-up in high-value elective procedures, and various efficiency measures undertaken by the company. OPM for H1 FY2025 was also supported by reduction in international footfall, which in turn has improved the payer mix, as majority of the footfall was coming from Bangladesh were being offered services at a discounted rate given their economic status. However, the margin slightly declined to due to the muted performance in Cayman Islands. Further, the Group's cash, cash equivalents and liquid investments increased to Rs. 1,103.5 crore as on March 31, 2024, and Rs. 1,102.4 crore as on September 30, 2024, compared to Rs. 406.1 crore as on March 31, 2023. The company's financial profile is expected to remain strong as the planned capex is incurred.

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 FY2025, 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. 1,400 to 1,600.0 crore for FY2025 and is also expected to incur sizeable capex from FY2026 to FY2029, which will be funded partially through debt. Around Rs. 275 crore of the FY2025 capex outflow will be utilised towards the completion of greenfield multi-specialty hospital in the Cayman Islands which has started its operations in the last week of October 2024. While it is expected to help diversify its offerings in the Cayman Islands and provide a significant location advantage to the NHL, the overall consolidated margins may be impacted in the initial few quarters of operations. The capex for FY2026 to FY2029 includes replacement and maintenance capex of around Rs. 300 to 350 crore per year along with Rs. 900 to 1200 crore per year for brownfield and greenfield expansion. The company is planning to add ~2,000 new beds in the upcoming 4 to 5 years which will require an investment of ~Rs.4,000 to 5,000 crore. Majority of these bed additions will be through greenfield projects while some will be through O&M model. The company is currently focused on setting up two greenfield facilities, one in Kolkata (~350 new beds in the first phase) and one in Bengaluru (~220 new beds). Both the units are expected to start operations by FY2029. Debt metrics of the company are expected to slightly moderate over the next few years with an expected increase in debt levels for partially funding the aforesaid 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.

ESG related comments

Since the company is a healthcare service provider, it does not manufacture any products and has limited environmental risks. However, it has taken significant steps towards the conservation of water and energy resources. At a group level, 26% of the energy requirement is met from captive wind and hydro energy. For hospitals in Karnataka, 85-90% of the energy requirement is fulfilled by renewable sources. Overall, with multiple initiatives, the company has been able to reduce energy consumption by ~14.0% and its CO_2 footprint by around 14,963 tons in FY2024. Furthermore, as part of its water conservation initiatives, domestic wastewater from hospitals is treated in on-site wastewater treatment plants and reused such that more than 95% of the wastewater is recycled across NHL.

Exposure to social risks is moderate for NHL. These risks include litigation exposure and compliance with standard requirements, given the importance of the services provided. Further, regulatory interventions such as price control measures and the imposition of specific restrictions, if any, could impact on the earnings of the company and as well as broader industry.

NHL provides treatment to patients from economically weaker sections, supported by concessions and contributions from philanthropists and charitable institutions.

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. Further, the Group has a total working capital facility of around Rs. 234 crore, which was remained unutilized in H1 FY2025. The group has sizeable capex plans over the next 2-3 years. It is expected to raise incremental debt to partially fund the same. The company had free cash, bank balance and liquid investments of Rs. 1,103.5 crore as on September 30, 2024. Repayment on the existing debt is Rs. ~147.7 crore in FY2025, Rs. ~793.7 crore in FY2026 and Rs. ~419.4 crore in FY2027. 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 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 multispecialty, tertiary and primary healthcare facilities. Dr. Devi Shetty, who has over 30 years of medical experience, incorporated NHL in 2000. The group, which initially focused on cardiac and renal sciences, expanded to additional areas of focus such as cancer care, neurology, neurosurgery, orthopedics, and gastroenterology and was rebranded as 'Narayana Health' in 2013 to reflect the diversified presence. The group owns and operates certain hospitals and also enters into management agreements with hospitals under which the group acquires operating control of the hospitals. As on September 30, 2024, it had 40 healthcare facilities (5,789 operational beds) of which 19 hospitals (5,551 beds) are owned/operated, 2 (128 beds) are heart centers, 18 (no beds) are primary healthcare facilities including Clinics and Dialysis Centre and 1 (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. The 'Narayana Health' brand is associated with the delivery of affordable healthcare services by leveraging its economies of scale.

Key financial indicators (Audited)

NHL Consolidated	FY2023	FY2024	H1 FY2025
Operating income	4,529.7	5,018.4	2,741.0
PAT	606.8	789.6	400.3
OPBDIT/OI	21.6%	23.0%	22.3%
PAT/OI	13.4%	15.7%	14.6%
Total outside liabilities/Tangible net worth (times)	0.9	0.9	0.9
Total debt/OPBDIT (times)	1.0	1.5	1.4
Interest coverage (times)	14.1	11.9	8.9

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

<table>
<tr><th></th><th colspan="3">Current (FY2025)</th><th colspan="6">Chronology of rating history for the past 3 years</th></tr>
<tr><th></th><th colspan="3">FY2025</th><th colspan="2">FY2024</th><th colspan="2">FY2023</th><th colspan="2">FY2022</th></tr>
<tr><th>Instrument</th><th>Type</th><th>Amount Rated (Rs Crore)</th><th>20-JAN-2025</th><th>Date</th><th>Rating</th><th>Date</th><th>Rating</th><th>Date</th><th>Rating</th></tr>
<tr><td rowspan="3">Fund Based – working capital</td><td rowspan="3">Long term</td><td rowspan="3">15.00</td><td rowspan="3">[ICRA]AA (Stable)</td><td rowspan="3">02-Feb-24</td><td rowspan="3">[ICRA]AA (Stable)</td><td>06-Mar-23</td><td>[ICRA]AA (Stable)</td><td rowspan="2">31-Dec-21</td><td rowspan="3">[ICRA]AA-(CE) (Stable)</td></tr>
<tr><td>29-Sep-22</td><td>[ICRA]AA-(CE) (Positive) withdrawn and [ICRA]AA-(Positive) assigned simultaneously</td></tr>
<tr><td>25-Apr-22</td><td>[ICRA]AA-(CE) (Positive)</td><td>10-May-21</td></tr>
<tr><td rowspan="3">Term Loan</td><td rowspan="3">Long term</td><td rowspan="3">0.00</td><td rowspan="3">[ICRA]AA (Stable)</td><td rowspan="3">02-Feb-24</td><td rowspan="3">-</td><td>06-Mar-23</td><td>[ICRA]AA (Stable)</td><td rowspan="2">31-Dec-21</td><td rowspan="3">[ICRA]AA-(CE) (Stable)</td></tr>
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<tr><td>25-Apr-22</td><td>[ICRA]AA-(CE) (Positive)</td><td>10-May-21</td></tr>
<tr><td rowspan="2">Non-Fund Based</td><td rowspan="2">Short term</td><td rowspan="2">16.00</td><td rowspan="2">[ICRA]A1+</td><td rowspan="2">02-Feb-24</td><td rowspan="2">[ICRA]A1+</td><td>06-Mar-23</td><td>[ICRA]A1+</td><td rowspan="2">31-Dec-21</td><td rowspan="2">[ICRA]A1+ (CE)</td></tr>
<tr><td>29-Sep-22</td><td>[ICRA]A1+(CE) withdrawn and [ICRA]A1+ assigned</td></tr>
</table>

							simultaneously		
						25-Apr-22	[ICRA]A1+ (CE)	10-May-21	
Unallocated	Long Term/Short term	35.00	[ICRA]AA (Stable)/ [ICRA]A1+	02-Feb-24	[ICRA]AA (Stable)/ [ICRA]A1+	-	-	-	-
Unallocated	Long term	-	-	02-Feb-24	-	-	-	31-Dec-21	Provisional [ICRA]AA- (CE) (Stable); Withdrawn
								10-May-21	Provisional [ICRA]AA- (CE) (Stable)
Unallocated	Long term	-	-	02-Feb-24	-	-	-	31-Dec-21	[ICRA]A1+ (CE)
								10-May-21	Provisional [ICRA]A1+ (CE)

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long term- Term loan	Simple
Long Term- Working Capital	Simple
Short term- Non-fund Based	Very Simple
Long term/ Short term- Unallocated	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 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: Click Here

Annexure-I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based - Working Capital	NA	NA	NA	15.0	[ICRA]AA (Stable)
NA	Non Fund Based	NA	NA	NA	16.0	[ICRA]A1+
NA	Unallocated	NA	NA	NA	35.0	[ICRA]AA (Stable)/[ICRA]A1+

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%	Full Consolidation
ISO Healthcare	20.00%	Full Consolidation

Source: Company data; As on March 31, 2023

Corrigendum

Rationale dated January 20, 2025, has been corrected with revisions as detailed below:

Changes have been made in summary table, Annexure-1 and rating history table as applicable

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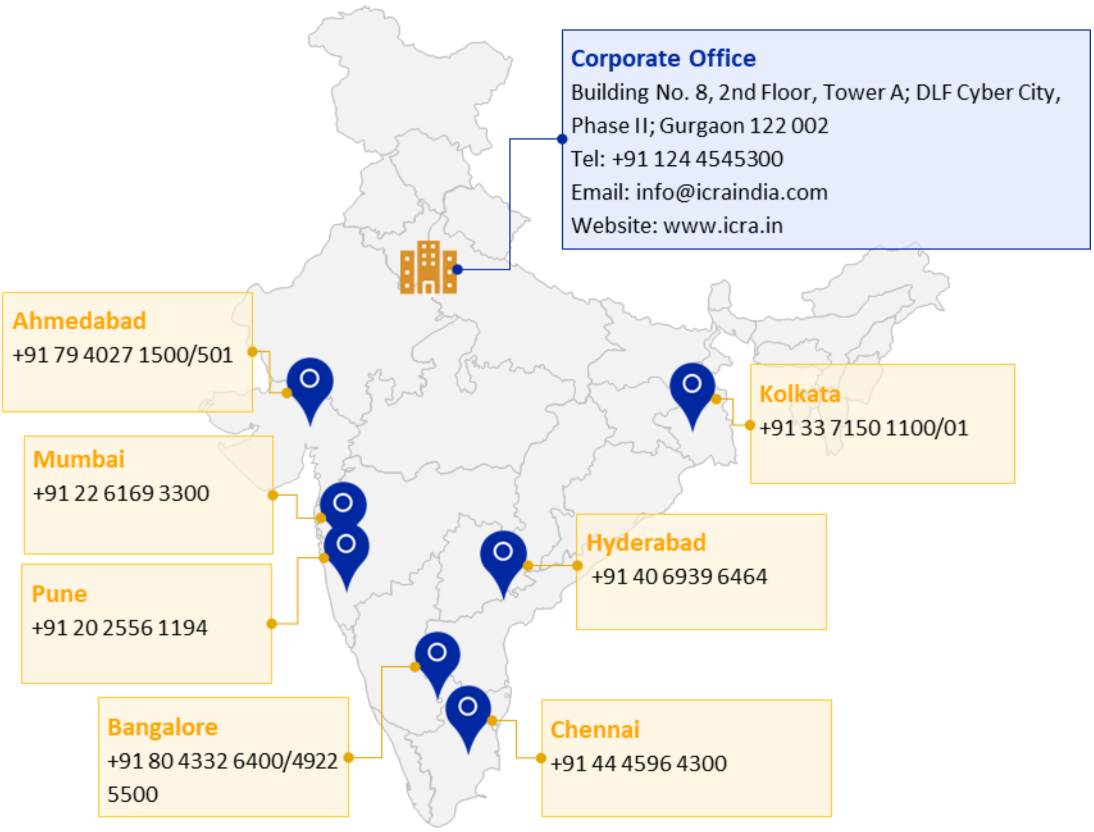

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