

July 19, 2019

## Narayana Hrudayalaya Limited: [ICRA]AA-(Stable)/[ICRA]A1+ assigned for enhanced amount

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term- Term Loan	285.00	565.00	[ICRA]AA- (Stable); Assigned
Short Term- Non-fund Based	25.00	35.00	[ICRA]A1+; Assigned
Long Term/ Short Term- Unallocated	0.00	45.00	[ICRA]AA- (Stable)/[ICRA]A1+; Assigned
Long Term/ Short Term- Working Capital	40.00	80.00	[ICRA]AA- (Stable)/[ICRA]A1+; Assigned
Non-Fund Based- Working Capital (sublimit)#	(40.00)	(40.00)	[ICRA]AA- (Stable)/[ICRA]A1+; Assigned
Commercial Paper Programme	50.00	50.00	[ICRA]A1+; Reaffirmed
<b>Total</b>	<b>400.00</b>	<b>775.00</b>	

\*Instrument details are provided in Annexure-1

# Sub-limit of Long Term/ Short Term- Working Capital

### Rationale

The assigned rating favourably factors in Narayana Hrudayalaya Limited's (NHL) established position in the healthcare sector and the significant brand equity of the 'Narayana Health' brand. The ratings also derive comfort from the geographically diversified presence of NHL across India, with a strong presence in Karnataka and East India. NHL has been diversifying its operational specialities from cardiac care and renal sciences to oncology, neuro-sciences, orthopaedics and gastroenterology. The company reported a 25% growth in its consolidated operating income in FY2019, backed by improved performance of its hospital in Cayman Islands coupled with a 13% growth in its revenue from Indian operations. The consolidated OPBITDA of NHL increased by 36% on y-o-y basis during FY2019.

The ratings are, however, constrained by the high leverage levels of the company as evidenced by reported Net Debt / OPBITDA of 2.4 times and Adjusted Net Debt / OPBITDA of 2.8 times<sup>1</sup> as on March 2019. The debt levels of NHL had increased substantially in FY2018 due to acquisition of a new hospital in Gurugram and consolidation of entire shareholding in a Cayman associate. ICRA also takes into account NHL's high reliance on the top-three performing hospitals for revenue as well as profit generation. The losses during stabilization phase in new hospitals and regulatory pricing restrictions constrained the company's profitability in FY2018 and FY2019, resulting in moderate return indicators. Nonetheless, there has been an improvement in the operating margins from 9.31% in FY2018 to 10.06% in FY2019. However, the Group will continue to be exposed to regulatory risks pertaining to any restrictive pricing regulations imposed by the Central and state governments in India.

<sup>1</sup> Adjusted Net Debt includes liability for business acquisition of Rs 102 crore as on March 2019, which has been treated as debt by ICRA. Excluding this amount, the reported Net Debt / OPBITDA was 2.4 times as on March 2019.

## Outlook: Stable

ICRA believes NHL will continue to benefit from its established brand equity, diversified specialty and geographical presence. The outlook may be revised to Positive in case there is significant improvement in profit margins and reduction in leverage. The outlook may be revised to Negative if large debt-funded capex or lower-than-expected profitability deteriorates the leverage and coverage indicators.

## Key rating drivers

### Credit strengths

**Significant brand equity of Narayana Health brand** - 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 has helped NHL in partnering with governmental bodies, not-for-profit trusts and charities, and private organisations to operate and manage their healthcare facilities. NHL targets to provide affordable healthcare which is evidenced by a lower Average Revenue Per Operating Bed (ARPOB) than most of its comparable peers.

**Spread across several geographies of India with strong presence in Karnataka and eastern India** - NHL has a network of 50 healthcare facilities; including 21 owned/operated hospitals, two managed hospitals, seven heart centres and 19 primary care facilities; across a total of over 31 cities, towns and villages in India. It has with 6,283 operational beds and 7,155 capacity 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, North America.

**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 has reduced from 68% in FY2013 to 57% in FY2019.

### Credit challenges

**Heavy reliance on top-three hospitals** - In FY2019, the three flagship hospitals contributed significantly to the Group's revenues and EBITDA as several of the other hospitals were still ramping up. NHL is dependent on the three hospitals for maintaining its business and financial risk profile. However, this dependence has moderated over the last couple of years. Over the last two years, the company has commissioned new hospitals in Mumbai (in Q1FY2018) and Gurgaon (in Q4FY2018), apart from taking over Dharamashila Hospital (in Q1FY2018) and adding additional specialties. The losses in the new hospitals in growth phases have constrained the consolidated profit margins.

**Exposure to regulatory risks** - Going forward, regulatory risks pertaining to restrictive pricing regulations levied by the Central and state government organisations could constrain the profit margins of the company. The impact of Ayushman Bharat scheme on the affordable healthcare segment and on the company's performance is a key monitorable.

**High leverage levels** - The debt levels of the company have increased to Rs 813 crore as on March 31, 2019 from Rs 217 crore as on March 31, 2017. The rise in debt is primarily on account of debt funded acquisition of partner's equity and consolidation of debt in the erstwhile associate entity viz. Health City Cayman Islands, and debt-funded acquisition of a new hospital in Gurugram. Leverage as measured by Net Debt / OPBITDA was high at 2.8 times as on March 31, 2019; nonetheless, it has reduced from the earlier level of 4.1 times as on March 31, 2018.

### Liquidity Position:

The liquidity position of the company is comfortable with cash and liquid investments of Rs 100 crore as on March 31, 2019. The fund-based working capital utilisation was moderate at Rs 12 crore as on March 31, 2019, against a sanction of Rs 103 crore at the consolidated level. The liquidity position is expected to remain comfortable in the near to medium term on account of the healthy cash accruals generated in relation to the long-term debt repayment obligations.

### Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Hospitals</a>
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on the consolidated financial profile of the company.

### 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, 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 the southern state of Karnataka and eastern India, with an emerging presence in western, central and northern India. NHL has a network of 21 owned/operated hospitals (multi-speciality and super-speciality healthcare facilities which provide tertiary care), two managed hospitals, seven heart centres (super-speciality units that are set up in a third-party hospital) and 19 primary care facilities (including clinics and information centres), across a total of 31 cities, towns and villages in India along with one hospital in Cayman Islands. It currently has 6,283 operational beds and 7,155 capacity beds.

### Key financial indicators

	FY2018	FY2019
Operating Income (Rs. crore)	2280.91	2860.92
PAT (Rs. crore)	56.04	61.61
OPBDIT/OI (%)	9.31%	10.06%
RoCE (%)	8.55%	8.51%
Total Debt/TNW (times) #	0.88	0.85
Total Debt/OPBDIT (times)	4.28	3.18
Interest coverage (times)	4.54	4.03

# Total Debt includes liability for business acquisition of Rs 102 crore as on March 2019 which has been treated as debt by ICRA

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

## Rating history for last three years:

Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years				
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2019		Date & Rating in FY2018		Date & Rating in FY2017
				Jul-19	Feb-19	Jan-18	Nov-17	Sep-16	
1 Term Loan	Long Term	565	489	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	NA	
2 Non-fund based	Short Term	35	1.5	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	NA	
3 Unallocated	Long Term / Short Term	45	-	[ICRA]AA-(Stable) / [ICRA]A1+	NA	NA	NA	NA	
4 Fund-based / Non-fund based – Working Capital	Long Term / Short Term	80	8	[ICRA]AA-(Stable) / [ICRA]A1+	[ICRA]AA-(Stable) / [ICRA]A1+	[ICRA]AA-(Stable) / [ICRA]A1+	[ICRA]AA-(Stable) / [ICRA]A1+	NA	
5 Non-fund based – Working capital	Long Term / Short Term	(40) #	-	[ICRA]AA-(Stable) / [ICRA]A1+	[ICRA]AA-(Stable) / [ICRA]A1+	[ICRA]AA-(Stable) / [ICRA]A1+	[ICRA]AA-(Stable) / [ICRA]A1+	NA	
5 Fund-based – Cash Credit	Long Term	-	NA	NA	NA	[ICRA]AA-(Stable)	NA	NA	
5 Long-term – Unallocated limits	Long Term	-	NA	NA	NA	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	
Short-term – Unallocated limits	Short Term	-	NA	NA	NA	NA	NA	[ICRA]A1+	
3 Commercial Paper Programme	Short Term	50	0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
9 Commercial Paper Programme	Short Term	NA	NA	NA	NA	NA	NA	Withdrawn	

# sublimit of Fund-based / Non-fund based working capital limit of Rs 80 crore

## Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://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	Long Term- Term Loan	Jun-2017	NA	Mar-2029	565.00	[ICRA]AA- (Stable)
NA	Short Term- Non-fund Based	NA	NA	NA	35.00	[ICRA]A1+
NA	Long Term/ Short Term- Unallocated	NA	NA	NA	45.00	[ICRA]AA (Stable) / [ICRA]A1+
NA	Long Term/ Short Term- Working Capital	NA	NA	NA	80.00	[ICRA]AA (Stable) / [ICRA]A1+
NA	Non-Fund Based- Working Capital (sublimit)	NA	NA	NA	(40.00)	[ICRA]AA (Stable) / [ICRA]A1+

NA	Proposed Commercial Paper Programme	NA	NA	NA	50.00	[ICRA]A1+
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Source: Narayana Hrudayalaya Limited

## Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Narayana Hrudayalaya Surgical Hospital Pvt Ltd	100%	Full Consolidation
Meridian Medical Research and Hospital Ltd	99.01%	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
Narayana Cayman Holdings Ltd	100%	Full Consolidation
Health City Cayman Islands Ltd (HCCI)	100%*	Full Consolidation
Trimedx India Pvt Ltd	10.00%	Equity Method
Narayana Holdings Private Limited	100%	Full Consolidation
Cura Technologies Inc.	43.33%	Equity Method
ISO Healthcare	20.02%	Equity Method

! Narayana Hrudayalaya Hospitals Malaysia Sdn Bhd - Commenced Members' Voluntary winding up in 2017 as per the extant provisions of the Malaysian Company Law. The company stands dissolved on 27<sup>th</sup> March 2018

\* HCCI was previously 28.6% Associate; the company w.e.f. January 2018 has become a wholly owned subsidiary

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