

October 23, 2017

Columbia Asia Hospitals Private Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Fund-based – Overdraft	35.00	[ICRA]BBB (Negative); Reaffirmed
Fund-based Term Loan	614.12	
Total	649.12	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB (pronounced ICRA triple B) assigned to the Rs. 649.12-crore¹ fund-based facilities of Columbia Asia Hospitals Private Limited (CAHPL or the company)². The outlook on the long-term rating is Negative.

While assigning the rating, ICRA has taken a consolidated view of CAHPL and its subsidiary – Navaketan Nursing Home Private Limited (NNHPL) – given the strong operational, financial and management linkages among these entities.

Rationale

The rating reaffirmation favourably factors in the long operational track record and established brand equity of Columbia Asia in the tertiary healthcare segment. CAHPL is a part of the geographically diversified Columbia Asia Group promoted by International Columbia US, LLC (ICU). The rating continues to draw comfort from the periodic and timely equity infusions undertaken by the parent to fund CAH's cash losses and capital expenditure requirements. On a cumulative basis, CAHPL has received equity infusion of Rs. 1,117 crore up to September 30, 2017. ICRA also notes the positive demand outlook for healthcare services in the country due to factors such as better affordability through increasing per capita income and widening medical insurance coverage, growing awareness for healthcare and under-penetration of healthcare services.

The rating, however, remains constrained by the high leverage levels as evidenced by gearing level of 2.05 times as on March 31, 2017 and weak debt-coverage indicators due to the continued losses of the company. The slower-than-anticipated ramp up in several hospitals has resulted in operating losses in FY2017. However, an uptick in operational metrics in H1 FY2018 has resulted in lower cash losses for the company. ICRA notes that the recovery in several of the growth and early growth phase hospitals and the corresponding cash losses may not be sufficiently supported by cash profits from the mature hospitals in the near term. This coupled with the debt repayments and the ongoing capex for starting new hospitals at Sarjapur Road and Baner would necessitate continued equity infusion by the parent.

The debt raised for funding the capital expenditure of the Group's hospitals carries an extended moratorium period with ballooning debt repayments. This reduces the extent of funding support during gestation period. Moreover, maintenance of a debt service reserve account amount (DSRA equivalent to one-quarter debt service requirement), escrow mechanism and cash sweep facility provide additional cushion for timely debt servicing.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Going forward, the ability of the company to improve the operating metrics and hence the profitability across hospitals will remain key rating sensitivities. Also, the continuance of funding support from the parent through equity infusions, the timely commencement of the proposed hospitals within the budgeted costs and ramp up of operations subsequent to commissioning would be closely monitored.

Key rating drivers

Credit strengths

- **Established player in the healthcare sector with reasonable brand equity** – The Columbia Asia Group is an established healthcare service provider in South Asia with a geographically diversified presence across India, Malaysia, Indonesia and Vietnam.
- **Experienced promoters** – The Group is promoted by ICU, a limited liability company promoted by high net worth individuals from America with interest and experience in the healthcare industry. The company gets financial and management support from the parent from time to time.
- **Diversification across various specialities** – The company is diversified across specialities that include orthopaedics, cardiology, general surgery, neurosurgery, nephrology, neurology, internal medicine, obstetrics and gynaecology.
- **Geographic diversification reduces dependence on a single unit** – The Company's diversified presence across North (Gurgaon, Patiala and Ghaziabad), West (Ahmedabad and Pune), East (Kolkata) and South India (Bangalore and Mysore) mitigates concentration risks.

Credit weaknesses

- **Weak profitability metrics** – Long gestation period and the corresponding losses in the hospitals in the growth and early growth phases as well as the moderate profitability in mature hospitals have been resulting in cash losses for the company. CAHPL has recorded exceptional losses of Rs. 49 crore in FY2016 and Rs. 51 crore in FY2017, which have resulted in high net losses. These include Rs. 49 crore in FY2016 and Rs. 4 crore in FY2017 on account of impairment of assets due to revaluation. The company has also provided Rs 17.8 crore as provision for doubtful capital advances, Rs 17 crore as provision for land and has written off Rs 11.8 crore of capital work-in-progress and advances in FY2017.
- **Financial profile characterised by leveraged capital structure and weak debt-coverage indicators** – Debt-funded capital expenditure coupled with the erosion of net worth due to the continued losses incurred by the company have resulted in high leverage levels. The leverage indicators have deteriorated with a gearing of 2.05 times and TOL/TNW of 2.46 times as on March 31, 2017 as against gearing of 1.30 times and 1.58 times, respectively, as on March 31, 2016.
- **Intense competition and exposure to industry risks** - Several of the company's hospitals have been facing stiff competition, which has been impacting the inpatient and outpatient volumes. The company has also witnessed the high attrition of doctors and nurses in its hospitals in the past impacting the operations.
- **Exposure to project risks** – The company is exposed to project risks like time and cost overruns. Ramp up post commencement of operations will also be monitored closely.

Analytical approach

While assigning the rating, ICRA has taken a consolidated view of CAHPL and its subsidiary NNHPL given the strong operational, financial and management linkages among these entities.

Links to applicable criteria
[Corporate Credit Rating Methodology](#)
[Rating Methodology for Hospitals](#)
About the company

Incorporated in 2003, CAHPL is a 99.5% subsidiary of International Columbia, Mauritius (ICM), which is wholly owned by ICU – a limited liability corporation incorporated in Seattle, Washington with over 200 investor-owners. At present, CAH owns and operates 11 hospitals across various locations. Hebbal (Bengaluru), Yeshwanthpur (Bengaluru) commenced in 2005 and 2008, respectively, and are mature hospitals, whereas Doddaballapur (Bengaluru), Kharadi (Pune), Palam Vihar (Gurgaon), Siddiqui Nagar (Mysore), Bhupindra Road (Patiala), Hapur Road (Ghaziabad) became operational during 2008–2013 and are under growth phase. CAH also has two hospitals in early growth phase at Whitefield (Bengaluru) and Thaljet (Ahmedabad) that were launched in 2014. CAH has a total capacity of 1,085 beds, with 27% of total beds in mature phase, 47% in growth phase and 27% in early growth phase. All these units, except Doddaballapur, provide multi-disciplinary health care services. The company is also in the process of commissioning two new hospitals in Sarjapur Road (Bengaluru) and Baner (Pune) at a total project cost of Rs. 193 crore and Rs. 270 crore respectively with a debt:equity funding of 1.5:1. While the 195-bed hospital at Sarjapur Road is expected to be commissioned in October 2016, the proposed 190-bed hospital at Baner is expected to be commissioned by February 2020.

Besides these, CAH has a wholly owned subsidiary, NNHPL, which offers multi-speciality health care services in Kolkata. CAH acquired 74% equity stake in NNHPL in 2007 and the balance 26% in June 2016.

Key financial indicators (Consolidated)

	FY2016	FY2017
Operating Income (Rs. crore)	651.29	712.82
PAT (Rs. crore)	-80.45	-136.58
OPBDIT/ OI (%)	4%	3%
RoCE (%)	-8%	-11%
Total Debt/ TNW (times)	1.30	2.05
Total Debt/ OPBDIT (times)	18.84	30.51
Interest Coverage (times)	0.42	0.34
NWC/ OI (%)	10%	10%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);

NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

**Rating history for last three years
Table**

S. No.	Instrument	Current Rating				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015	
					October 2017	December 2016	November 2015	January 2015	
1	Overdraft	Long Term	35.00	18.74	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Positive)	
2	Term Loan	Short Term	614.12	385.77	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Positive)	

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

Annexure-1
Instrument Details

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Overdraft - Fund Based	-	-	-	35.00	[ICRA]BBB (Negative)
-	Term Loan	-	-	March 2027 [^]	614.12	[ICRA]BBB (Negative)

Source: the company

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