Lahore Hospital Society

September 13, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount(Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Fund based-Term Loan	12.0	50.0	[ICRA]BBB+ (Positive); Reaffirmed, Outlook revised from Stable
Fund Based Working Capital	-	30.0	[ICRA]BBB+ (Positive); -reaffirmed, Outlook revised from Stable
Non-Fund Based Working Capital	-	10.0	[ICRA]BBB+ (Positive); reaffirmed, Outlook revised from Stable -
Unallocated	-	10.0	[ICRA]BBB+ (Positive); reaffirmed, Outlook revised from Stable
Total	**12.0**	**100.0**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed a long-term rating of [ICRA]BBB+ (pronounced ICRA triple B plus) to the Rs. 100.0-crore fund based and non-fund based facilities (enhanced from Rs 12.0 crore) of Lahore Hospital Society (LHS)[1]. The outlook on the long-term rating has been changed from Stable to Positive.

Rationale

The change in outlook takes into account the improvement in operating metrics post re-empanelment in Central Government Health Scheme (CGHS) in July 2018, and the improvement in adjusted[2] capitalisation and coverage indicators in FY2018 aided by infusion of unsecured loans by Radiant Life Care Pvt. Ltd. (RLCPL; which manages the property), which were used to repay bank loans. Adjusted[2] Total Debt/OPBIDTA improved to 0.76 times (provisional) in FY2018 from 2.17 times in FY2017, and adjusted[2] Net Cash Accruals/Total Debt improved to 74% in FY2018 (provisional) from 26% in FY2017. The rating continues to derive comfort from the favourable location of LHS's hospital in Rajendra Nagar in New Delhi, in proximity to established residential and commercial areas, good brand recall of the hospital as well as the long and successful track record of RLCPL in the healthcare sector. The rating further draws comfort from the continued demonstration of adequate and timely support by RLCPL to LHS as well as infusion of equity by Kohlberg Kravis Roberts (KKR) into RLCPL which has improved RLCPL's financial flexibility.

The rating, however, is constrained by the significant interest and fee payments made in the last two years to RLCPL which have impacted the margins and free cash flows available with the society. Also, the hospital witnessed de-growth in occupied beds by 8% in FY2018 due to the termination of contract with CGHS, and the profitability margins have been impacted by regulatory restriction on pricing of coronary stents and knee implants. Nonetheless, the occupancy inched up in YTD FY2019 post the re-empanelment with CGHS.

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

[2] *Unsecured loans infused by RLCPL have been considered as equity while calculating adjusted numbers*

Additionally, ICRA expects the hospital's margins to come under pressure on account of free treatment to be provided to 25% Outpatient Department (OPD) and 10% Inpatient Department (IPD) patients from the Economically Weaker Section (EWS) category going forward, due to the recent judgement from the Supreme Court of India. Nonetheless, the impact on the accruals may be offset by the re-empanelment with CGHS in July 2018. Further, the rating is constrained by high receivables outstanding for more than six months, which increases working capital intensity and the risk of bad debts for the hospital. Further, given that the ~99% of the revenues of the society are dependent on a single property, it remains exposed to geographical-concentration risks.

Going forward, the hospital's ability to sustain the improved operating metrics as seen in YTD FY2019, while maintaining its margin, working capital intensity and capital structure will be the key rating sensitivities.

Outlook: Positive

The outlook has been revised from Stable to Positive due to the improvement in the provisional balance sheet for 2018 with reduction in external debt post infusion of unsecured loans by RLCPL. The rating may be upgraded in case of improvement in operational accruals post the fresh approval from CGHS, after adjusting for the impact of free treatment to eligible patients post the judgment of the Supreme Court of India. The outlook may be revised to Stable if the improvement in operating metrics or cash accrual is lower than expected, in case of stretch in the working capital cycle, or adverse change in payment terms for unsecured loans extended by RLCPL.

Key rating drivers

Credit strengths

Good brand recall since relaunch - In 2000, the old hospital building was demolished, and a new building was constructed alongside upgrading it to a tertiary care healthcare facility with increased capacity. The hospital has gained good recognition and brand recall since the relaunch of operations in 2009.

Strong promoter support - Continued funding support by RLCPL through infusion of ~Rs. 300 crore of funds over the years. In addition, infusion of equity by KKR into RLCPL has improved its financial flexibility and has also enabled incremental infusion of funds in LHS in FY2018.

Significant improvement in adjusted[2] coverage indicators - Due to the infusion of unsecured loans by RLCPL and prepayment of external debt in FY2018, the adjusted provisional debt coverage numbers of LHS improved significantly. Adjusted[2] TD/OPBDITA was 0.76 times (provisional) in FY2018 compared with 2.17 times in FY2017 and adjusted[2] TOL/TNW of 1.45 times (provisional) in FY2018 vis-à-vis 4.95 times in FY2017.

Improvement in occupancy in YTD FY2019 - Though the hospital has witnessed decline in occupancy over the last two years on account of termination of contract with CGHS as well as certain international institutional clients, the occupancy has improved since July 2018 on the back of re-empanelment with CGHS.

Favourable location - The hospital is located in Rajendra Place in proximity to established residential-cum-commercial neighbourhood in Central Delhi, which has good connectivity.

Credit challenges

Significant obligation toward unsecured loans - Annual payments to RLCPL for meeting interest obligations on unsecured loans, especially variable fee paid out in FY2017, impacted profitability margins as well as free cash flows of the society. Future payment terms towards unsecured loans by RLCPL remains a key sensitivity.

High receivables outstanding - The company has significant receivables outstanding as on March 31, 2018, of which 68% has been outstanding for more than six months, which increases the working capital intensity and increases the risk of bad debts for the company.

Regulatory risk - In FY2018, the margins of the company were impacted by regulatory restrictions regarding pricing of coronary stents and knee implants. Further, as per a Supreme Court judgment in July 2018, the hospital has to provide free treatment to 25% OPD and 10% IPD patients from the EWS category.

Geographical-concentration risk - As ~99% of the revenues are from the Delhi hospital, the society is exposed to geographical-concentration risk and any adverse regulatory restrictions specific to this micro-market.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology]

[Rating Methodology for Hospitals]

About the company

Built on a land parcel of 5 acres on Pusa Road, Delhi, the hospital originally became operational in 1959 as a 200-bed maternity hospital named Delhi Maternity Hospital. In 1980s, the hospital added various divisions and became a multi-specialty hospital. In 2000, the hospital at Delhi was shut down due to the poor condition of the building and outdated equipment. The old hospital was demolished and a new building was constructed. The hospital was relaunched in 2009 as a super-specialty tertiary care hospital. It has an agreement with RLCPL, under which the Lahore Hospital Society owns the hospital and the former operates and manages it.

In FY2018, on a provisional basis, the company reported a net profit of Rs. 14.5 crore on an operating income (OI) of Rs. 518.0 crore compared with a net profit of Rs. 15.8 crore on an OI of Rs. 507.2 crore in the previous year.

Key financial indicators

	FY2017 Audited	FY2018 Provisional
Operating Income (Rs. crore)	507.2	518.0
PAT (Rs. crore)	15.8	14.5
OPBDIT/ OI (%)	14.9%	14.1%
RoCE (%)	27.8%	26.3%
Total Debt/ TNW (times)	*	*
Total Debt/ OPBDIT (times)	5.5	5.0
Interest coverage (times)	2.0	2.1
NWC/ OI (%)	11%	11%

(*) Negative

Status of non-cooperation with previous CRA: CRISIL revised the ratings of Lahore Hospital Society from CRISIL BBB (Positive)/A3+ in January 2017 (Rating Advisory Issued) to CRISIL BB+ (Stable)/ A4+ (Issuer not cooperating) in July 2017 on the grounds of non-cooperation by Lahore Hospital Society.

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating September 2018	Date & Rating in FY2018 September 2017	Date & Rating in FY2017 -	Date & Rating in FY2016 -
1	Fund based-Term Loan	Long Term	50.0	50.0	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	-	-
2	Fund Based Working Capital	Long Term	30.0	-	[ICRA]BBB+ (Positive)	-	-	-
3	Non-Fund Based Working Capital	Long Term	10.0	-	[ICRA]BBB+ (Positive)	-	-	-
4	Unallocated	Long Term	10.0	-	[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 Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan 1	Feb 2011	NA	Mar-20	33.7	[ICRA]BBB+ (Positive)
NA	Term Loan 2	Sept-2015	NA	Mar-23	16.3	[ICRA]BBB+ (Positive)
NA	Fund Based Working Capital	NA	NA	NA	30.0	[ICRA]BBB+ (Positive)
NA	Non-Fund Based Working Capital	NA	NA	NA	10.0	[ICRA]BBB+ (Positive)
NA	Unallocated	NA	NA	NA	10.0	[ICRA]BBB+ (Positive)

Source: Lahore Hospital Society

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