Columbia Asia Hospitals Pvt Ltd

December 05, 2018

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based- Overdraft	35.00	35.00	[ICRA]BBB (Stable); Reaffirmed, outlook revised from Negative
Fund Based- Term Loan	614.12	614.12	[ICRA]BBB (Stable); Reaffirmed, outlook revised from Negative
Total	**649.12**	**649.12**	

*Instrument details are provided in Annexure-1

Rationale

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

The revision in the rating outlook positively factors in the ramp up of operations in various hospitals of the company, as evidenced by a 50% growth in the absolute OPBITDA generation in the first seven months of FY2019 (7MFY2019) as compared to the same period last year. ICRA also positively factors in the sale of the loss-making Ahmedabad hospital in October 2018 and the utilisation of the sale proceeds towards debt reduction. ICRA also takes into account the long operational track record and the established brand equity of CAHPL in the tertiary healthcare segment. The company 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 CAHPL's cash losses and capital expenditure requirements. CAHPL received equity infusions of Rs. 149.40 crore and Rs 58.10 crore in FY2018 and H1FY2019.

The rating, however, remains constrained by the high leverage levels and the weak coverage indicators of the company. The slower-than-anticipated ramp up in several hospitals accompanied with recognition of an extraordinary loss has resulted in a net loss in FY2018. However, an uptick in operational metrics in several hospitals in 7MFY2019 reduced cash losses for the company. ICRA also notes that the company is in advanced stages of refinancing its existing debt which will extend the tenure of the debt thus reducing the repayments falling due over the near term. With the ramp-up of operations in hospitals and refinance of debt, the company's dependence on funding support from the parent to meet operational expenditure and debt payments, is expected to reduce going forward. Nevertheless, the ongoing capex for the new hospital in Baner, Pune would necessitate continued equity infusion by the parent.

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

Outlook: Stable

The Stable outlook reflects the improvement in operating performance and the reduction in operating losses incurred by the company. The outlook could be revised to Positive in case there is material improvement in the operating performance of the hospitals, resulting in higher cash accruals and improvement in debt coverage indicators. The outlook could be revised to Negative in case lower-than-expected profitability deteriorates the leverage and debt coverage indicators.

Key rating drivers

Credit strengths

Experienced promoters - The Group is promoted by ICU, a limited liability company promoted by high net-worth individuals from the US with interest and experience in the healthcare industry. The company gets financial and management support from the parent from time to time.

Established player in 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.

Geographic diversification reduces dependence on single unit - The company's diversified presence across North (Gurgaon, Patiala and Ghaziabad), West (Pune), East (Kolkata) and South India (Bangalore and Mysore) mitigates concentration risks. The company is also diversified across specialities that include orthopaedics, cardiology, general surgery, neurosurgery, nephrology, neurology, internal medicine, obstetrics and gynaecology. The company's focus on high complexity procedures in FY2019 has improved the Average revenue per operating bed (ARPOB) in FY2019 (YTD).

Sale of Ahmedabad hospital - The company has sold its loss-making Ahmedabad hospital in October 2018 to Zydus Healthcare for a total consideration of Rs. 79.82 crore. The hospital was incurring cash losses of Rs. 1-1.25 crore every month and hence, the company would be saving Rs. 12-15 crore p.a. after the sale, An amount of Rs. 70.49 crore will be utilised for pre-payment of debt, which will reduce the debt servicing obligations of the company.

Credit challenges

Weak profitability metrics – Long gestation period and the corresponding losses in 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. 42 crore in FY2018 and Rs. 51 crore in FY2017, which have resulted in high net losses. These include Rs. 42 crore in FY2018 and Rs. 4 crore in FY2017 on account of impairment of assets due to sale and revaluation, respectively. Despite the improvement in several of the hospitals of the Group in the current year, the cash losses continue, with the company reporting a net loss of Rs 46 crore on an operating income Rs 404.35 crore in H1FY2019 (Standalone-provisional). The company is expected to reduce its losses from H2FY2019 with the sale of the Ahmedabad hospital, ramp-up of its newly commissioned Sarjapura hospitals and improvements in the operating metrics of other hospitals.

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 increased the leverage levels. The company is highly leveraged and has weak coverage indicators, thus limiting the financial flexibility of the company. The ratio of the total debt (excluding lease finance obligations) to OPBITDA as on March 31st, 2018 is 14.6 times. Nevertheless, the debt coverage indicators for the company are expected to improve going forward on account of debt prepayment through the sales proceeds from the Ahmedabad unit and improvement in OPBITDA.

Intense competition and exposure to industry risks - Several of the company's hospitals have been facing stiff competition, resulting in lower occupancies. The company has also witnessed high attrition of doctors and nurses in its hospitals in the past, impacting the operations. Also, regulatory risks in terms of any restrictive pricing regulations levied by central and state governments could also constrain the profit margins in the industry going forward.

Exposure to project risks in Pune Hospital – The company is exposed to project risks such as time and cost overruns. Timely commencement within budgeted costs and ramp up post commencement will be key monitorables. The initial ramp up period losses expected in the first 24 months in this greenfield unit is also expected to negate the improvement in profitability in the older units to some extent, thus constraining the profitability.

Liquidity Position:

The company has undrawn working capital limits of Rs. 17.9 crore apart from cash and bank balances of Rs. 9.6 crore as on September 30, 2018, on a standalone basis. Moreover, the company had debt service reserve account of Rs 32 crore as on September 30, 2018 (equivalent to one-quarter principal and interest service requirement), escrow mechanism and cash sweep facility for the debt availed for capital expenditure. This provides additional cushion for timely debt servicing.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Hospitals
Parent/Group Support	Parent Company: International Columbia, USA (ICU) The rating assigned takes into account the profile of the promoter group, ICU, which has investors like Columbia Pacific Management and Mitsui & Co. ICU has provided corporate guarantee to all the outstanding loans of CAHPL and has been providing support in the form of timely equity infusions to fund the capital expenditure and operational losses. Going forward, ICRA expects equity support for meeting capex; any operational cash flow mismatches would continue.
Consolidation / Standalone	Consolidated financial statements of CAHPL and its 100% subsidiary Navketan Nursing Home Private Limited

About the company:

Columbia Asia Hospitals Pvt Ltd(CAHPL) was incorporated in 2003 and is a 100% 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. The company is promoted by Mr. Daniel. R. Baty and family, who currently hold 26.14% equity shareholding in ICU. Mitsui & Co., Ltd invested approximately USD 101 million in ICU towards new share allotment and acquisition of shares from the existing shareholders in July 2016. An additional investment of USD 210 million is to be made in ICU, out of which USD 140 million will be brought in by Mitsui & Co. and remaining will be brought in by other investors. This will bring Mitsui's total investment to 26.09%, which is almost the same as that of the founding members.

At present, CAHPL owns and operates ten hospitals across various locations. The company had a hospital in Thaltej, Ahmedabad, which it sold to Zydus Healthcare in October 2018. Besides, CAH also has a 100% subsidiary company Navketan Nursing Home Private Limited (NNHPL) which offers multi speciality health care services in Kolkata. CAHPL acquired 74% equity stake in NNHPL in 2007 and further 26% in June 2016.

The company has a total capacity of 1191 beds, with 22% of total beds in mature phase, 37% in growth phase and the remaining 41% in early growth phase. All these units, except Doddaballapur, provide multi-disciplinary healthcare services. The company is also in the process of commissioning a new hospital in Baner (Pune) at a total project cost of Rs 270 crore with a debt-to-equity funding of 1.5:1.The proposed 190 bed hospital at Baner is expected to be commissioned by Q2FY2021.

In FY2018, the company on a consolidated basis reported a net loss of Rs. 125.6 crore on an operating income of Rs. 824.7 crore, as compared to a net loss of Rs. 136.6 crore on an operating income of Rs. 712.8 crore in the previous fiscal.

Key financial indicators (audited)

Consolidated	FY2017	FY2018
Operating Income (Rs. crore)	712.8	824.7
PAT (Rs. crore)	-136.6	-122.9
OPBDIT/OI (%)	2.5%	3.7%
RoCE (%)	-10.7%	-7.4%
Total Debt/TNW (times)	2.1	2.0
Total Debt/OPBDIT (times)	31.2	19.1
Interest coverage (times)	0.3	0.5

Note: The leverage and coverage indicators include liabilities on account of lease finance obligations.

Status of non-cooperation with previous CRA: Not applicable

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 December 2018	Date & Rating in FY2018 October 2017	Date & Rating in FY2017 December 2016	Date & Rating in FY2016 November 2015
1	Overdraft	Long Term	35.00	-	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Negative)**	**[ICRA]BBB (Negative)**	**[ICRA]BBB (Stable)**
2	Term Loan	Long Term	614.12	**344.03**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Negative)**	**[ICRA]BBB (Negative)**	**[ICRA]BBB (Stable)**

* As on 22-Nov-2018

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	Overdraft- Fund Based	31-Mar-16	-	-	35.00	[ICRA]BBB (Stable)
NA	Term Loan	31-Mar-16	-	31-Mar-27	614.12	[ICRA]BBB (Stable)

Source: Columbia Asia Hospitals Pvt Ltd

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Navketan Nursing Home Private Limited	100%	Full Consolidation

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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