

March 27, 2020

## Narayana Hrudayalaya Limited: Ratings reaffirmed

### Summary of rating action

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

\*Instrument details are provided in Annexure-1

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

### Rationale

The rating reaffirmation 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 specialties from cardiac care and renal sciences to oncology, neuro-sciences, orthopaedics and gastroenterology. The group reported a 25% and 14% growth in its consolidated operating income in FY2019 and 9mFY2020 respectively, backed by improved performance of its hospital in Cayman Islands coupled with steady ramp-up in some of its Indian hospital units. The consolidated OPBITDA of NHL increased by 36% and 47%<sup>1</sup> on y-o-y basis during FY2019 and 9mFY2020.

The ratings are, however, constrained by the moderate leverage levels of the company as evidenced by Debt / OPBITDA of 1.7 times and Adjusted Debt / OPBITDA of 2.0 times<sup>2</sup> as on December 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. However, with gradual improvement in profitability and limited capital expenditure in the last 12 months, the debt levels are on a declining trend. 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 10.1% in FY2019 to 12.2% in 9mFY2020. 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 for the impact of IndAS 116 adoption to make the numbers comparable

<sup>2</sup> Adjusted Debt includes liability for business acquisition of approx. Rs. 99 crore as on December 2019, which has been treated as debt by ICRA. Excluding this amount, the reported Debt / OPBITDA was 1.7 times as on December 2019.

Further, the impact of ongoing Covid-19 pandemic and its implications on the operations of the company remains to be seen. The company has announced two weeks temporary suspension in operations of Cayman unit starting March 18, 2020 due to quarantining clinical staffs following exposure to a Covid-19 patient. While disruption in NH's Indian operations remains limited as on date, given the fast-evolving nature of the pandemic, more widespread growth of the disease may put pressure on healthcare resources and cause disruption in NH's operations also.

## Key rating drivers and their description

### 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 47 healthcare facilities, including 20 hospitals (multi-speciality and super-speciality healthcare facilities which provide tertiary care), one managed hospital, six heart centres (super-speciality units which are set up in a third-party hospital) and 19 primary care facilities (including clinics and information centres), across a total of over 30 cities, towns and villages in India, with 5,770 operational beds and the potential to reach a capacity of up to 6,579 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 51% in 9M FY2020.

### Credit challenges

**Heavy reliance on top-three hospitals** - In FY2019 and 9MFY2020, the three flagship hospitals contributed significantly to the Group's revenues and EBITDA as several of the other hospitals were still ramping up. However, this dependence has moderated over the last couple of years. In 9mFY2020, 41% of the revenues and 74% of the EBITDA was contributed by the top three hospitals as against 42% and 84%, respectively in FY2019, partly due to the rising contribution from the Cayman Island hospital unit. Over the last three 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.

**Exposed to regulatory risks inherent in the sector**- 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 ongoing Covid-19 pandemic may also cause disruption in NH's operations and remains a key event risk. The company has announced two weeks temporary suspension in operations of Cayman unit starting March 18, 2020 due to quarantining clinical staffs following exposure to a Covid-19 patient. While disruption in NH's Indian operations remains

limited as on date, given the fast-evolving nature of the pandemic, more widespread growth of the disease may impact NH's operations also.

**Moderate leverage levels, albeit on a declining trend from peak levels in March 2018** - The debt levels of the company had increased to Rs 802 crore as on March 31, 2018 from Rs 217 crore as on March 31, 2017. The rise in debt was 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. However, the debt levels are currently on a declining trend, supported by gradual improvement in profitability and limited capital expenditure. The debt has reduced to Rs 677 crore as December 2019 from the peak level of Rs 802 crore as on March 2018. Leverage as measured by Debt / OPBITDA was 1.7 times and Adjusted Debt/ OPBITDA was 2.0 times as on December 31, 2019; moderated from the earlier elevated level of Debt / OPBITDA of 3.8 times and Adjusted Debt/ OPBITDA of 4.3 times as on March 31, 2018.

### Liquidity position: Adequate

The liquidity position of NHL is **adequate** backed by healthy cash flow from operations, moderate debt repayment obligations as well as sanctioned working capital lines which are largely undrawn. During FY2021, NHL is expected to generate cash from operations of close to Rs 280 crore as against scheduled debt repayments of Rs 90 crore. NHL's capex requirements are expected to be funded through a mix of term loans and internal accruals. As on December 2019, the group reported cash and bank balances of Rs 106.7 crore apart from mutual fund investments of Rs 64.5 crore.

### Rating sensitivities

**Positive triggers** – ICRA could upgrade NHL's rating if there is an improvement in business risk profile through ramp-up in profitability in newer units resulting in reduced dependence on the flagship hospital units. Specific credit metrics which could lead to upgrade include Total Debt / OPBITDA less than 1.25 times on sustained basis.

**Negative triggers** – Negative pressure on NHL's rating could arise if there is a weakening of the business risk profile through lower growth or profitability in the mature units or sustained delay in achieving profitability in the new units. Specific credit metrics which could lead to downgrade include Total Debt / OPBITDA higher than 2.5 times on sustained basis.

### 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	Consolidation: ICRA has consolidated NHL along with its operational subsidiaries and associate companies (mentioned in Annexure-2) on account of the strong business and financial linkages between 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, 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 47 healthcare facilities, including 20 hospitals (multi-speciality and super-speciality healthcare facilities which provide tertiary care), one managed hospital, six heart centres (super-speciality units which are set up in a third-party hospital) and 19 primary care facilities (including clinics and information centres), across a total of over 30 cities, towns and villages in India, with 5,770 operational beds and the potential to reach a capacity of up to 6,579 beds.

### Key financial indicators (audited)

	FY2018	FY2019	9mFY2020
Operating Income (Rs. crore)	2280.9	2860.9	2384.0
PAT (Rs. crore)	56.0	61.6	107.0
OPBDIT/OI (%)	9.3%	10.1%	12.2%
RoCE (%)	8.5%	8.5%	N.A.
Total Outside Liabilities/Tangible Net Worth (times)	1.4	1.4	N.A.
Total Debt/OPBDIT (times)	3.8	2.8	1.7
Total Adjusted Debt/OPBDIT (times)#	4.3	3.2	2.0
Interest Coverage (times)	4.5	4.0	N.A.
DSCR	2.8	2.0	N.A.

# Total Adjusted Debt includes liability for business acquisition of Rs 106 crore, Rs 102 crore and Rs. 99 crore as on March 2018, March 2019 and December 2019 respectively which has been treated as debt by ICRA

N.A. – Not Available

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

### Any other information: None

## Rating history for past three years

	Instrument	Rating (FY2020)				Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Current Rating	Earlier Rating	FY2019	FY2018		FY2017
					27-Mar-2020	19-Jul-2019	22-Feb-2019	2-Jan-2018	23-Nov-2017	7-Sep-2016
1	Term Loan	Long Term	565.0	381.0	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-
2	Non-Fund Based	Short Term	35.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
3	Unallocated	Long/Short Term	45.0	-	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	-	-	-	-
4	Fund based/Non-fund based Working Capital	Long/Short Term	80.0	-	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	-
5	Non-fund based – working capital	Long/Short Term	(40.0) #	-	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	-
6	Commercial Paper	Short Term	50.0	0.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
7	Unallocated	Long Term	-	-	-	-	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
8	Unallocated	Short Term	-	-	-	-	-	-	-	[ICRA]A1+

Amount in Rs. Crore

# Sub-limit of Long Term/ Short Term- 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+

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	99.12%	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
NH Health Bangladesh private Limited	100%	Full Consolidation
Narayana Holdings Private Limited	100%	Full Consolidation
Trimedx India Pvt Ltd	10.00%	Equity Method
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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