

March 27, 2020

Narayana Hrudayalaya Surgical Hospital Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Working Capital	10.00	10.00	[ICRA]AA-(CE) (Stable); Reaffirmed
Fund-based – Term Loan	50.00	50.00	[ICRA]AA-(CE) (Stable); Reaffirmed
Short term – Non-fund based limits	16.00	16.00	[ICRA]A1+(CE); Reaffirmed
Total	76.00	76.00	

*Instrument details are provided in Annexure-1

Rating Without Explicit Credit Enhancement

[ICRA]BBB+

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. Earlier, the rating symbol for this instrument/facility used to be accompanied by the (SO) suffix. The change in suffix is not to be construed as a change in rating. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

The above rating is based on the strength of the corporate guarantee provided by Narayana Hrudayalaya Limited (NHL/the guarantor, rated [ICRA]AA-(Stable)/[ICRA]A1+), the parent of Narayana Hrudayalaya Surgical Hospital Private Limited (NHSPL), and an undertaking provided by the guarantor that it would ensure that the related debt obligations are serviced on or prior to the due date.

Adequacy of credit enhancement

The rating of the instrument is based on the credit substitution approach whereby the rating of the guarantor has been translated to the rating of the said instrument. The guarantee is legally enforceable, unconditional, irrevocable and covers the entire amount and tenor of the rated instrument. Given these attributes, the guarantee provided by Narayana Hrudayalaya Limited is adequately strong to result in an enhancement in the rating of the said instrument to **[ICRA]AA-(CE)** against the rating of [ICRA]BBB+ without explicit credit enhancement. In case the rating of the guarantor was to undergo a change in future, the same would reflect in the rating of the aforesaid instrument as well.

Salient covenants related to the credit enhancement, as specified in the guaranteed documents

- » *The Guarantors shall pay the bank on demand and without any demur or protest all amounts including the principal sum together with all interest, costs, charges, expenses and/or other monies due to the bank from the borrower in respect of the above-mentioned credit facility.*
- » *The guarantee will not be affected by the insolvency, winding up, dissolution or change in constitution of the borrower*
- » *The guarantee is a continuing security and shall remain in full force till all dues under the above-mentioned facilities are met*

Key rating drivers and their description

Credit strengths

Corporate guarantee and undertaking provided by NHL towards the rated bank facilities of NHHPL: The rating derives comfort from the irrevocable and unconditional corporate guarantee extended by NHL and undertaking provided by the guarantor that it would ensure that the related debt obligations are serviced on or prior to the due date. The rated instrument does not involve a structured payment mechanism.

Significant brand equity of Narayana Health brand: The group enjoys a strong market position in the healthcare services industry and has an established brand equity (especially in the cardiac segment) and ability to provide quality healthcare at affordable prices. Strong brand equity and goodwill among patients and healthcare professionals have helped NHL in partnering with governmental bodies, not-for-profit trusts and charities, and private organisations to operate and manage their healthcare facilities.

Consistent funding support from parent to meet all deficits– Owing to losses in the acquired Dharamshila unit, the company requires support from parent entity. There has been a track record of consistent support from parent in form of equity infusions. Since FY2017 till FY2019, the parent has infused around Rs. 92 crore of equity into the company.

Credit challenges

Losses in the Dharamshila unit - This hospital was a cancer focussed unit run by a society prior to converting into a multi-speciality hospital. Due to the higher overheads associated with a multi-speciality hospital (due to introduction of new labs and departments and increase in doctor expense), the unit has remained loss-making and yet to achieve break-even. However, it is expected to improve going forward and EBITDA level break-even is expected in FY2021.

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 impact of Ayushman Bharat scheme on the affordable care segment and on the group's performance is also a key monitorable.

Liquidity position

The liquidity position of the guarantor 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

The above rating assigned to the Rs. 76 crore bank facilities would remain sensitive to any movement in the rating or outlook of the guarantor Narayana Hrudayalaya Limited.

Positive triggers: Any upward movement in the rating of the guarantor.

Negative triggers: Any downward movement in the rating of the guarantor.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Hospitals Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	Parent/Group Company: Narayana Hrudayalaya Limited The assigned rating is based on an unconditional, irrevocable corporate guarantee extended by NESHPL's parent – Narayana Hrudayalaya Limited
Consolidation/Standalone	The ratings are based on the consolidated financial profile of NHL (Annexure- 2)

About the company

NESHPL was incorporated on in October 2010 as a private limited company and is currently a wholly owned subsidiary of NHL. The company operates a hospital in Mysore, Karnataka and has partnered with Dharamshila Cancer Foundation & Research Centre to run a multispeciality hospital in Delhi under a management contract from Q1 FY2018 onwards.

Key financial indicators (NESHPL - audited)

	FY2018	FY2019
Operating Income (Rs. crore)	152.0	179.8
PAT (Rs. crore)	-21.1	-34.6
OPBDIT/OI (%)	6.8	-0.7
RoCE (%)	-0.6	-8.3
Total Outside Liabilities/Tangible Net Worth (times)	10.6	15.5
Total Debt/OPBDIT (times)	14.6	-126.7
Interest Coverage (times)	0.5	-0.1
DSCR	0.6	0.0

About the Guarantor

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 of Guarantor (Consolidated - 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	Current Rating (FY2020)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2019		FY2018	FY2017
					27-Mar-2020	22-Feb-2019	06-Apr-2018	23-Nov-2017	07-Sep-2016
1	Fund Based – working capital	Long Term	10.0	8.0	[ICRA]AA-(CE) (Stable)	[ICRA]AA-(SO) (Stable)	[ICRA]AA-(SO) (Stable)	[ICRA]AA-(SO) (Stable)	[ICRA]AA-(SO) (Stable)
2	Term Loan	Long Term	50.0	34.0	[ICRA]AA-(CE) (Stable)	[ICRA]AA-(SO) (Stable)	[ICRA]AA-(SO) (Stable)	[ICRA]AA-(SO) (Stable)	[ICRA]AA-(SO) (Stable)
3	Non-fund based – working capital	Short Term	16.0	-	[ICRA]A1+(CE)	[ICRA]A1+(SO)	[ICRA]A1+(SO)	[ICRA]A1+(SO)	[ICRA]A1+(SO)

Amount in Rs. 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

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	Working Capital	-	-	NA	10.00	[ICRA]AA-(CE) (Stable)
NA	Term Loan	Sept-2017	-	Oct-2027	50.00	[ICRA]AA-(CE) (Stable)
NA	Non-fund based – Working capital – limits	-	-	NA	16.00	[ICRA]A1+ (CE)

Source: NHSPL

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 27th March 2018

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

Analyst Contacts

Shubham Jain

+91 124 4545 306

shubhamj@icraindia.com

Mathew Kurian Eranat

+91 80 4332 6415

mathew.eranat@icraindia.com

Ashirbad Rath

+91 80 4332 6416

ashirbad.rath@icraindia.com

Relationship Contact

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2020 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents