

Press Release

Nayati Healthcare and Research Private Limited

August 06, 2020

Rating

Instrument / Facility	Amount (Rs. Crore)	Current Rating	Previous Ratings	Rating Action
Long Term Fund Based Bank Facilities-Term loan	250.00 (Reduced from Rs. 260 crore)	IVR BBB- / Under Credit watch with developing implications (IVR Triple B Minus with Under Credit watch with developing implications)	IVR BBB/ Stable Outlook (IVR Triple B with Stable Outlook)	Revised
Long Term Fund Based Bank Facilities-Cash credit	45.00	IVR BBB- / Under Credit watch with developing implications (IVR Triple B Minus with Under Credit watch with developing implications)	IVR BBB/ Stable Outlook (IVR Triple B with Stable Outlook)	Revised
Long Term Fund Based Bank Facilities-Term loan	0.00 (Reduced from Rs. 155.00 crore)	Withdrawn*	IVR BBB/ Stable Outlook (IVR Triple B with Stable Outlook)	Withdrawn
Total	295.00			

*Mentioned facility has not been availed by the entity

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Details of Facilities are in Annexure 1

Detailed Rationales

The revision of the rating to the bank facilities of Nayati Healthcare and Research Private Limited (NHRPL) is on account of moderation in capital structure and profitability and below expectations FY20 performance. The rating derives comfort from experienced management, strong backward integration marked by presence of another group unit Nayati Medical Private Limited, locational advantage and secured client base marked by the presence of PSU units and various government departments. These rating strengths are partially offset by moderation in capital structure and profitability, fiercely competitive healthcare industry limiting the ability to attract and retain high-quality consultants and capital-intensive nature of industry. **The rating is under credit watch with developing implications** on account of continuing losses and challenges arising from the COVID 19 pandemic.

Upward Factors

- Significant improvement in profitability metrics thereby leading to overall improvement in cash accruals which is significantly higher than Infomerics expectation could lead to a positive rating action.
 - Significant improvement in capital structure
- **Downward Factors**
- Significant increase in losses in FY21, and/or deterioration in profitability impacting the debt coverage indicators or liquidity, subdued industry scenario could lead to a negative rating action
 - Further deterioration in capital structure
 - Variation of more than 5% in key financial figures of audited financial statements from reported figures of provisional financial statements could trigger the negative rating action.

List of Key Rating Drivers with Detailed Description

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Key Rating Strengths

Experienced management

NHRPL's chairperson is Ms. Niira Radia, who has offered consultancy services in the past to the Tata Group, Vedanta Resources, Reliance Group along with various other clients. NHRPL's management rests in the hands of Ms. Karuna Menon and Mr. Satish Kumar Narula. Ms. Karuna Menon has over 30 years of experience spanning diverse sectors such as banking, hospitality, aviation, and communications wherein she has worked with the likes of the Tata & Reliance Group, Bill & Melinda Gates foundation amongst several others. Mr S.K. Narula, a former Chairman of the Airports Authority of India and a former Executive Director in Power Grid Corporation of India has an administrative experience of over 40 years in the field of Power, Infrastructure and Aviation sectors.

Strong backward integration marked by presence of another group unit Nayati Medical Private limited

Nayati group has also set up another entity, Nayati Medical Pvt. Ltd. (rated IVR BBB-/Stable) which is engaged in trading of pharmaceutical related products like antibiotics, drugs, medicines, surgical instruments, cosmetics, hospital requisites and other allied products. The entity was incorporated mainly with a view to cater to the needs of its NHRPL and other hospitals situated in the vicinity. NMPL acts as a sole supplier to the pharmaceutical needs and other medical allied products for the hospital under NHRPL.

Locational Advantage

NHRPL runs the hospital operations in the vicinity of Mathura city which lacks robust supply chains and world class super specialty healthcare amenities. NHRPL owns the hospital with multi super-specialty tertiary care hospital holding expertise in various medical disciplines like oncology, neurology, neurosurgery, renal sciences, etc. NHPL's hospital is a one-off state-of-the-art facility in the entire western Uttar Pradesh, indicating potential business growth for the entity.

Secured client base marked by the presence of PSU units and various government departments

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NHRPL is benefitted by locational presence in the Mathura region lacking super specialty healthcare facilities. NHRPL derives descent proportion of income (30% to 40%) through serving the patients under various government schemes namely Ayushman Bharat and Pradhan Mantri Jan Arogya Yojana and also contracts with the various corporates in the nearby areas. Presence of various government and PSU units in the client portfolio imparts comforts towards the consistency in operations.

Key Weaknesses

Moderation in capital structure and profitability

The capital structure of the company comprised of term loans, working capital limits and compulsory convertible debentures (CCD) infused by promoters and relatives. CCD's has been treated as the quasi equity. Overall gearing for the company stood at 2.15x as on March 31, 2020 moderated from 1.79x as on March 31, 2019. Total indebtedness of the company reflected in TOL/ANW moderated to 2.48x as on March 31, 2020 from 2.15x as on March 31, 2019.

Further, EBITDA margins moderated from 17.39% in FY19 to 13.38% in FY20. However, fall in operating margins is majorly led by the by early impact of covid-19 disruptions and imposition of section 144 in the wake of Anti-Citizenship Act protests from Dec'19 to Jan'20.

Fiercely competitive healthcare industry limiting the ability to attract and retain high-quality consultants

The healthcare industry is very competitive with a large number of established organized players and their growing network of hospitals catering to middle/high income group which has affected the pricing flexibility of the company, in addition to restricting occupancies to a certain extent. Further, improvement of the occupancy levels is highly dependent on the hospital's ability to retain and add reputed consultants which will be a challenge in light of heightened competition in the healthcare sector. However, this hospital is providing specialized services of transplant of lever.

Capital intensive nature of industry

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The hospital segment is capital intensive industry with a long gestation period. Generally, the payback period (PBP) for a new hospital is in the range of 5-6 years. Further, the maintenance capex required for the hospital industry also remains high owing to regular replacement of equipment to remain updated with the latest technology.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Healthcare sector

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

The liquidity position of the company is adequate marked by the sufficient gross cash accrual expected over the next fiscals to meet the debt obligations. Company has also availed moratorium till August, 2020 under covid-19 relief package leading to no repayment obligation till August, 2020. However, average working capital utilization for last 12 months ended June, 2020 stood at 95% indicating low cushion for incremental requirements. Further, current ratio of the company stood at 1.24x as on March 31, 2020 imparting comfort for meeting its near-term liabilities.

About the Company

Incorporated in year 2013, Nayati Healthcare and Research Private Limited (NHRPL) is a healthcare venture, promoted by Naaraayani Investment Private Limited (NIPL) owned by former public relations veteran, Ms. Niira Radia. The company runs a 351 bedded hospital in Mathura, Uttar Pradesh, under the name of "Nayati Medicity". The hospital commenced operations from May 2016.

The hospital is Western Uttar Pradesh's only comprehensive super specialty tertiary care facility offering an OPD with 15 specialties. It has several centres of excellence including Cardiac Sciences, Oncology, Gastro Sciences, Trauma and Emergency, Orthopedics and Joint Replacement, Critical Care, Renal Sciences, Neurosciences, Pulmonary medicine, Paediatrics and

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Neonatology. The hospital also caters to Vrindavan, Palwal, Firozabad, Mainpuri, Kasganj, Etawah, Etah, Hathras, Agra and surrounding areas.

Financials (Standalone):

(Rs. crore)

For the year ended*	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	251.46	248.17
EBITDA	43.72	33.21
PAT	-29.73	-35.04
Total Debt	304.69	306.42
Tangible Net worth	170.58	142.45
EBITDA Margin (%)	17.39	13.38
PAT Margin (%)	-11.69	-14.06
Overall Gearing Ratio (x)	1.79	2.15

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Issuer not cooperating by Brickwork Ratings, vide press release dated June 29, 2020 due to non-availability of information.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash credit	Long Term	45.00	IVR BBB- / Under Credit watch with developing implications	IVR BBB / Stable (May 06, 2019)	-	-
2.	Term loan	Long Term	250.00	IVR BBB- / Under Credit watch with developing implications	IVR BBB / Stable (May 06, 2019)	-	-

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Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
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Long Term Bank Facilities- Cash Credit	-	-	-	45.00	IVR BBB- / Under Credit watch with developing implications
Long Term Bank Facilities- Term Loan	-	-	Latest by May, 2032	250.00	IVR BBB- / Under Credit watch with developing implications