Brief Rating Rationale

CRAF assigns CARE MAU A (Stable) rating to the proposed term loan/bond issue and CARE MAU A (Stable)/CARE A1 ratings to the bank facilities of The Medical & Surgical Centre Limited

Ratings

Facility/Instrument	Amount (MUR Million)	Rating
Proposed Term Loan/ Bond Issue	450	**CARE MAU A; Stable [Single A; Stable]**
Long/Short term Bank Facilities - Overdraft	50	**CARE MAU A; Stable/ CARE MAU A1 [Single A; Stable/A One]**

Rating Rationale

The ratings assigned to The Medical & Surgical Centre Limited (MSCL) derive strength from experienced promoters & management team, leadership position of MSCL in the private healthcare sector of Mauritius, Fortis Clinique Darne (FCD) being a multi-specialty hospital with state of the art technology, operational & maintenance contract with Fortis Healthcare Limited for running FCD, association of eminent doctors with FCD, consistent increase in occupancy rates and revenue in FCD for last three years, moderate financial position of MSCL post acquisition of Apollo Bramwell Hospital and growth in health insurance, propelling growth in healthcare sector. The ratings also derive strength from MSCL being part of the CIEL group (CIEL Limited **-** rated CARE MAU AA/ CARE MAU A1+). The ratings are however constrained by risk associated with acquisition of Apollo Bramwell Hospital (ABH; to be renamed shortly), cash losses and low occupancy in ABH whose acquisition is predominantly debt-funded impacting the financial parameters of MSCL and healthcare industry being very sensitive to mishandling of a case or negligence on part of any doctor and/or staff.

Ability of MSCL to quickly turnaround the performance of ABH by improving occupancy & profitability in ABH as envisaged, manage working capital effectively, renewal of agreement with Fortis in 2019 (when the current term is expiring for FCD) and ability to continue to attract and retain quality doctors in a competitive healthcare sector are the key rating sensitivities.

BACKGROUND

The Medical & Surgical Centre Limited (MSCL), was incorporated in July 1972, to take over the Clinique Darne. The Clinique Darne, with capacity of 12 rooms and one operating theatre, was founded by Dr. François Darné, a highly respected surgeon in Mauritius, in 1953. It is one of the oldest private hospital of Mauritius. During the last four decades, the Clinique has been substantially renovated and today it has established itself as one of the most modern hospitals of Mauritius with 112 bed facility, 4 operation theatre, 13 Intensive care unit, comprehensive diagnostic and laboratory services, outpatient pharmacy and 24/7 emergency department and ambulance services.

In January 2009, CIEL group and Fortis Healthcare Limited (FHL; rated CARE A+/CARE A1) jointly acquired 57.8% stake in MSCL. Subsequently, MSCL also entered into operational & maintenance contract, of the Clinique Darne, with Fortis Healthcare Limited for a period of 10 years and the Clinique was renamed as “Fortis Clinique Darné”. As on Dec 31, 2016, CIEL Healthcare (subsidiary company of CIEL Limited – CARE MAU AA/CARE MAU A1+) owns 58.6% and FHL owns 28.9% in MSCL. Fortis Clinique Darne (“FCD”), is strategically located in the centre of Mauritius and has been a leader in the provision of specialist healthcare services for more than four decades. Over the years, the clinic has expanded its services and provides medical and paramedical services across a wide range of specialties, all under one roof. The hospital is equipped with state of the art technology and well qualified & experienced doctors/surgeons.

In December 2016, MSCL acquired the assets of Apollo Bramwell Hospital (ABH; to be renamed shortly), a 200 bed multi-specialty Hospital (150 beds are operational), situated in the area of Moka. Fortis Clinique Darne and Apollo Bramwell Hospital are the only 2 private and international standard hospitals in Mauritius offering comprehensive medical facilities.

The deal comprises buying of commercial assets (medical equipment’s/furniture & fixtures/Hardware & software/medicines) of ABH at MUR 700 million along with payment of annual rental of MUR 60 million for land and building including taxes. The deal also includes safeguarding of all jobs. MSCL has financed the acquisition of ABH in December 2016, by availing loans from various group companies (MUR 436 million), cash balance available with MSCL (MUR 187 million) & bill of exchange (MUR 77 million) to be paid over next 3 years. The company now proposes to raise a bond/term loan of MUR 450 million (at an indicative coupon rate of 5%) to be repaid over next 10 years (moratorium of 2 years) out of the cash accruals of FCD and ABH.

In FY16 (April 2015 – June 2016), MSCL posted a PAT of MUR 102 million on a total income of MUR 993 million. Overall gearing was nil as on June 30, 2016. During H1FY17 (June – Dec 2016), MSCL has reported a MUR 41 million (MUR 38.1 million in H1FY16) on a turnover of MUR 421.3 million (MUR 378.5 million in H1FY16).

Average bank limit utilization during last 12 months was negligible (less than 5%) as confirmed by management and MCB, bankers of MSCL. Post takeover of ABH, the overdraft facility (MUR 65 million) utilization was around 30% in January and February 2017.

CIEL has posted a Turnover and PAT of MUR 45 million and MUR 16 million in Q1FY17 at the company level and MUR 4885 million and MUR 102 million at CIEL group level, respectively.