Rating Rationale
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.

MSCL is a professionally managed company. It is governed by 8 member Board of Directors comprising 4 directors from CIEL group, 2 nominee directors from Fortis and 2 independent directors.

CREDIT RISK ASSESSMENT

Experienced promoters & management team

CIEL group, through its investment in CIEL Healthcare, owns assets in the healthcare sector in Mauritius and across Sub-Saharan Africa. Its main investments are controlling stakes in MSCL and International Medical Group Limited, leading provider of private healthcare services in Uganda and Hygeia Nigeria Limited, Nigeria’s leading private healthcare company.

Fortis Healthcare Limited (FHL), promoted by Late Dr Parvinder Singh, is a leading healthcare delivery provider in India with presence in multiple verticals spanning diagnostics, primary care, day-care specialty and hospitals. As on December 31, 2016, FHL (consolidated) had a network of 54 healthcare facilities (including projects under development), approximately 10,000 potential beds and 306 diagnostic centers.

The day to day operations of MSCL are looked after by Mr. Alex Alexander (Director), who joined Fortis group in 2001 and was appointed by FHL for overlooking the operations of MSCL in 2009. He is assisted by Ms. Unnati Negi (Chief Operating officer of MSCL) and Dr. Ashish Sharma (Head of Medical Services). Ms. Negi was Head-Operations at Fortis Memorial Research Institute – FMRI – Allied Hospitals before being deputed to Mauritius. Dr. Ashish Sharma, comes with 12 years of rich experience in providing inpatient care in Hematology, Oncology, Cardiology and Renal care. They are ably supported by a team of medics and professionals, who look into day to day operations of FCD.

Collaboration with Fortis

In January 2009, CIEL group entered into Operational & Maintenance (O&M) Agreement with Fortis Healthcare Limited, one of India's largest healthcare providers, for the Clinique Darne. The name of the hospital was changed to Fortis Darne Clinique. The O & M Agreement is for a duration of 10-years which is to expire in January 2019, unless renewed by both parties, who may review and agree on new terms.

Multi-specialty hospital with state of art technology

FCD provides healthcare services in various fields (Cardiology, Orthopaedics, Neurology, Gynaecology, Paediatric Surgery, Dental, Dermatology, ENT, Endocrinology, Gastroenterology, Opthalmology, Oncology, Pulmonology, Physiotherapy etc.) with specialists available round the clock exclusively for the hospital. It is equipped with state of the art equipment's - modular OTs and state-of-the-art ICUs (11 beds of the hospital consists of ICU/CCU). FCD is amongst the oldest & most renowned hospital in Mauritius and its neighboring areas for its patient centric and high quality care. Patients from all parts of Mauritius and Rodrigues have been greatly benefitted from the facilities offered by the hospital due to non-availability of a quality hospital in the region.

Association of experienced & eminent doctors

The hospital has qualified doctors & surgeons and well trained staff (more than 200 nurses). Many experienced doctors of international repute are associated with MSCL over the years on account of its high inflow of patients, good infrastructure and multi-specialty nature of the hospital. MSCL has approximately 150 authorized medical practitioners and 70 specialized doctors associated to it as outdoor patient consultants. All departments have dedicated teams of doctors. The Hospital has managed to retain majority of its reputed doctors in last three years.

Focus on complex medical operations

Being a multispecialty hospital and due to empanelment of reputed doctors, MSCL focuses more on complex cases involving high end medical treatment, not available otherwise in its area of operation. As a result, it has been able to attract significant number of patients from across the island seeking specialized treatment.

Increasing occupancy level

For the year ending/As on Mar.31,	2014	2015	2016
No. of beds	106	112	112
Occupancy rate – days (%)	68%	72%	82%
Average no. of days per patient	2.44	2.48	2.57
Average revenue per occupied bed per annum (MUR Million)	8.17	8.20	8.55

The range of specialized healthcare services offered by MSCL at a competitive rate and association of quality & renowned doctors has increased inflow of patients leading to improvement in occupancy rate to 80% in FY16. During FY15 also the inflow of patients increased post addition of beds resulting in higher average revenue per in-house patients.

Increasing Revenue from in-house patients

For the year ending Mar.31,	2014 (12M)	2015 (12M)	2016 (12M)
Gross revenue	**Mur mn**	**Mur mn**	**Mur mn**
In-house patients	460.8	483.0	589.4
Outdoor patients	128.2	150.9	184.6

Other Income	11.9	11.8	12.3
Total	**601.0**	**645.8**	**786.3**
% of gross revenue			
In-house patients	76.7%	74.8%	74.9%
Outdoor patients	21.3%	23.4%	23.5%
Others	2.0%	1.8%	1.6%

Revenue increased by 7% in FY15 and 22% in FY16 primarily due to increase in number of patients (both in-house & outpatients) as a result of increasing trust of the patients towards the hospital, which, in turn, was on account of successful handling of a number of complex cases and association of qualified and experienced doctors. A major chunk of revenue for the company is derived from in-house patients of the hospital.

The hospital has different varieties of rooms to cater to patients from various strata of society with room rent ranging from Mur 1,750/- per day (for day care) to Rs.4,500/- per day (for single room).

Risk associated with the large-size acquisition of loss incurring Apollo Bramwell Hospital which is predominantly debt-funded

Fortis Clinique Darne and Apollo Bramwell Hospital are the only 2 private and international standard hospitals in Mauritius offering comprehensive medical facilities.

Like FCD, ABH also offers a wide range of medical facilities including Robotic Surgery, IVF, Cell therapy, Plastic and Aesthetic Surgery as well as Cardiology, Orthopaedics, Nephrology, Urology, Obstetrics, Gynaecology and Paediatrics. The hospital is supported by fully equipped pathology laboratories and radiology equipment. ABH offers one of the most comprehensive Orthopaedic care in the region and employs Medical experts with vast experience to perform complex bone, joint and spine surgeries. The Consultants at the Urology Centre use the latest and advanced techniques to treat kidney, urinary, bladder and prostate problems.

ABH was promoted by BAI group in 2009 and the operational & management contract was given to Apollo Hospital group of India. However, due to bankruptcy of Bramer Bank in April 2015, Mauritius Government acquired all the assets of the BAI group, including the property of ABH in August 2015, to liquidate the properties and repay the lenders. The management of the hospital was handed over to National Insurance Company Healthcare Ltd (NICHL). Sudden exit of BAI group and in experience of NICHL in managing the hospital operations impacted the services/care provided by the hospital leading to lower occupancy (45%), ostentatious overhead cost and cash losses of around MUR 6-8 million per month in CY16.

In December 2016, MSCL acquired the assets of ABH. The deal comprises buying of commercial assets (medical equipment's/furniture & fixtures/hardware & software/medicines) of ABH at MUR 700 million along with payment annual rental of MUR 60 million for land and building including taxes. The deal also includes safeguarding of all jobs, under the current working conditions, including the time of service based on seniority. This apart MSCL will also benefit from the past losses of ABH (more than

MUR 400 million) and will have no tax liability till June 2021, as per Agreement with Mauritius Government. MSCL has financed the acquisition of ABH in December 2016 as under:

Means of Finance	Mur Million	Remarks
Loans from group companies	436	Bridge financing to be replaced with proposed term loan/Bond
Cash	187	Cash balance of MUR 247 million as on Sept 30, 2016
Bills of exchange for few medical facilities availed on lease by ABH	77	MUR 17 million to be payable in FY18 and MUR 20 million each payable in FY19, FY20 & FY21.
	700	

The company now proposes to raise term loan/Bond of MUR 450 million and repay the loan availed from various group companies. The terms of the loan/Bond are as under:

	Tenure	Moratorium	Repayment
Term Loan/Bond	10 years (Indicative interest rate - 5% p.a.)	2 years	Repayable in 8 annual ballooning installment from FY19

The rationale for the acquisition is to improve the level of health care in Mauritius, in partnership with Fortis Healthcare, divert the increasing patient inflow in FCD, increase the occupancy in ABH by judiciously utilizing the location, services & facilities of ABH and doctors involved with ABH and utilize the brand value of the hospital.

The management has done a detailed due diligence of overhead cost (Consumables expenses, Consultant fees, personal cost, laundry expenses, Electricity charges, etc.) and low occupancy and expects to turnaround the performance of the hospital shortly.

Post takeover of ABH by CIEL group in January 2017, the occupancy of the 150 bed hospital has improved in February 2017. The management expects that the same will improve further going forward and would be sustained. On the expenses front, the management has identified certain cost leakage points, which if controlled, will reduce the operational cost by around 10%.

Fortis has appointed Mr. Sukmeet Sandhu for management of Operations and maintenance of ABH. Mr. Sandhu has more than 10 years' experience with Fortis Healthcare, with primary focus on operations. Prior to his deputation in Mauritius, he was looking after International Operations at Fortis Healthcare.

Fragmented nature of the healthcare industry

The Mauritian Healthcare Industry has metamorphosed itself into an integrated cluster underpinned by a core group of high-value activities such as hi-tech medicine, medical tourism, medical education and wellness. During the last decade, a number of global healthcare companies have invested in multi-specialty and super-specialty centres of excellence to cater for the growing healthcare needs of both national and international patients as Mauritius aim to be the healthcare hub of Africa. Expenditure on healthcare in the Mauritian economy approximates around MUR 5 Billion and the industry has an estimated growth of around 4.3% in 2016.

The public sector provides free medical services and operates 5 regional hospitals, 5 Mediclinics and 2 District Hospitals across the island. The operations of around 3,600 beds is managed by more than 3000 nurses and 600 doctors.

The private sector, being the oldest medical service provider on the island, provides its services over 17 private medical clinics with a total bed capacity of 705, 31 medical laboratories and 291 private pharmacists scattered across the island. The private sector generates business of approximately MUR 1.6 Billion which represents 30% of total expenditure on health in the Mauritian economy. The private healthcare industry employs around 550 doctors which are supported by a pool of approximately 2500 nurses and staffs.

The largest private clinics are Apollo Bramwell Hospital and Fortis Clinique Darne having operational beds of 150 and 112 respectively. followed by other smaller bed capacity clinics like Muller Clinic, Dr Ferriere Clinic, Bon Pasteur Clinic and Clinic Candos. Both the largest clinics Ex-ABH and FCB are now owned by the Mauritian industrial group CIEL Limited. Most recently, the Mauritian private healthcare sector boasts of state-of-the-art facilities and highly-qualified personnel providing comprehensive high-end medical care which has enabled Mauritius to position itself as a leading destination for medical travel.

Improvement in financial performance during FY15 & FY16

MSCL's net sales have increased consistently with y-o-y growth of 8% in FY15 and 24% in FY16 (annualized) owing to the increase in the occupancy rate coupled with increase in the bed capacity and average revenue per patient. EBIDTA margin was range bound between 16-17% due to stringent cost control effort by the management. PAT margin also improved during last 3 years due to negligible interest cost. GCA was comfortable at MUR 150 million for 15 months ended June 2016. The company paid a dividend of MUR 57 million to its shareholders in FY16.

MSCL has a policy to stock inventory of around 10-20 days, based on the general trade parlance across the industry. Out of the total billing/ operating revenue of MSCL, around 70% pertains to cash paying patients followed by balance 30% covered under Mediclaim/ Insurance policies. Accordingly, the collection period remains comfortable at 3-4 weeks with a substantial number of patients opting for on-spot cash settlement.

Current ratio was very comfortable as on June 30, 2016. 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.

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).

FINANCIAL PERFORMANCE

Standalone Financial performance of MSCL

MUR Million

For the year ended as on	Mar-14	Mar-15	Jun-16	Jun-16
	12M, A	12M, A	12M@, A	15M, A
Working Results				
Revenue	586.4	633.5	784.7	980.9
Total Income	594.5	638.0	794.4	993.0
EBIDTA	102.6	104.8	138.7	173.4
Depreciation	32.9	35.3	38.6	48.2
Interest	2.6	0.1	0.1	0.1
PBT	67.0	69.5	100.0	125.0
PAT	56.0	57.2	81.9	102.3
Gross Cash Accruals (GCA)	88.9	92.5	120.4	150.5
Dividend paid/proposed	17.1	22.8		57.0
Financial Position				
Equity share capital	289.8	289.8		289.8
Tangible networth	409.2	440.7		485.8
Total debt	1.1	1.5		2.0
- Long term debt	1.1	1.5		2.0
- Short term debt	0.0	0.0		0.0
Cash & Bank balances	24.7	92.5		230.6
Key Ratios				
Profitability (%)				
EBIDTA / Total income	17.50	16.55		17.67
PAT / Total income	9.41	8.97		10.30
ROCE- operating (%)	10.98	11.01	32.28	17.38
RONW (%)	10.94	10.77	14.13	17.67
Solvency (times)				
Debt equity ratio	0.00	0.00		0.00
Overall gearing ratio	0.00	0.00		0.00
Interest coverage (times)	38.87	1417.46		1313.03
Long term Debt/ GCA	0.01	0.02		0.01
Total debt/ GCA	0.01	0.02		0.01
Liquidity (times)				
Current ratio	1.93	2.37		2.05
Quick ratio	1.50	1.95		1.83
Turnover (days)				
Avg. Collection Period (days)		39		29
Avg. Inventory (days)		23		19
Avg. Creditors (days)		64		55
Op. cycle (days)		(3)		(7)

@annualised

Adjustments

1. Tangible networth is calculated by netting off revaluation reserve and intangible assets from total equity.
2. Gross Cash Accruals (GCA) is calculated as PAT+ Depreciation + deferred tax+ other non-cash expenditure.
3. Overall Gearing ratio is calculated as total debt (long term and short term debt)/Tangible Networth.
4. Total Income includes revenue, other operating Income and interest on deposits.

Annexure - I
Details of Rated Bank Facilities/Instruments

Long-term/Short-term bank facilities

Banker / lender	Type of facility	Amount (MUR Million)
The Mauritius Commercial Bank	Overdraft	50.00
Grand Total		**50.00**

1. Details of proposed Long term bank facilities/Bond Issue

Banker / lender	Type of facility	Amount (MUR Million)	Debt repayment terms
Proposed	Long term loan/Bond Issue	450.00	Tenure – 10 years Moratorium – 2 years Repayable in 8 annual ballooning instalment commencing from FY19
Grand Total		**450.00**	

The repayment terms are as follows:

	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
Principle	45.1	47.9	50.9	54.0	57.4	61.0	64.8	64.8	4.1