Brief Rating Rationale
CRAF reaffirms CARE MAU A (Stable) rating to the term loan and CARE MAU A (Stable)/CARE MAU A1 ratings to the long/short-term bank facilities of The Medical & Surgical Centre Limited

Ratings

Facility/Instrument	Amount (Mur million)	Rating	Remarks
Term Loan	450	**CARE MAU A; Stable [Single A; Stable]**	**Reaffirmed**
Long/Short term Bank Facilities - Overdraft	50	**CARE MAU A; Stable/ CARE MAU A1 [Single A; Stable/A One]**	**Reaffirmed**

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, both Fortis Clinique Darne ("FCD") and Fortis Wellkin Hospital ("Wellkin") being multi-specialty hospitals with state of the art technology, operational & maintenance contract with Fortis Healthcare Limited for both the hospitals, association of eminent doctors, consistent increase in occupancy rates in Wellkin since takeover 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 predominantly debt-funded acquisition of loss making Wellkin hospital impacting the financial position of MSCL, lower occupancy in Wellkin and turning around the performance of Wellkin hospital as envisaged 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 improve occupancy & profitability in Wellkin as per projection, ability to manage working capital effectively, renewal of agreement with Fortis in 2019 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 BBB+/CARE A2 under credit watch with Negative implications) 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 31 December 2017, CIEL Healthcare (subsidiary company of CIEL Limited – CARE MAU AA/CARE MAU A1+) owns 58.6% and FHL owns 28.9% in MSCL.

In March 2018, Manipal Hospital Enterprises (belonging to Manipal Education and Medical Group of India, promoted by Ranjan Pai) has purchased hospital division of Fortis healthcare (along with Fortis Brand). The proposed merger (subject to approval of various stakeholders & Regulators) of Manipal Hospitals and Fortis Hospitals, will result in the creation of the largest provider of healthcare services in India with 41 domestic hospitals, 4 overseas hospitals and 11,000 plus installed bed capacity. Post conclusion of the merger, Manipal Hospital Enterprises will hold 28.9% stake in MSCL.

In January 2017, MSCL acquired the assets of loss making Apollo Bramwell Hospital (subsequently renamed as Fortis Wellkin), a 200 bed multi-specialty Hospital (150 beds are operational), situated in the area of Moka at an aggregate cost of Mur 700 million. Prior to take over by MSCL, the hospital was incurring loss due to low occupancy (45%), ostentatious overhead cost and poor service quality due to mismanagement.

Both FCD & Wellkin hospitals are strategically located in the centre of Mauritius and are equipped with state of the art technology and well qualified & experienced doctors/surgeons. The hospitals together have 262 operational beds, including 9 operating theatres, and medical and paramedical services across 40 specialties. Currently, FCD is operating at an occupancy rate of around 80% and Wellkin at 65%. MSCL also operates a café named Café du Volcan, located in FCD. FCD and Wellkin are the only 2 private and international standard hospitals in Mauritius offering comprehensive medical facilities.

MSCL is a professionally managed company. It is governed by 8-member Board of Directors comprising 4 directors from CIEL group, 1 nominee director from Fortis and 3 independent directors.

In FY17 (July-June), MSCL posted a loss of Mur 24.7 million (PAT of Mur 102 million in FY16) on a total income of Mur 1,216 million (Mur 981 million in FY16). Overall gearing was 1.23 as on June 30, 2017. During H1FY18 (July – Dec 2017), MSCL has reported a loss of Mur 36 million (PAT of Mur 41 million in H1FY17) on a turnover of Mur 837 million (Mur 426 million in H1FY17).

MSCL's year-on-year increase in revenue in FY17 & H1FY18 can be primarily attributed to the consolidation of Wellkin in FCD's operations. Dip in EBIDTA and losses in FY17 & H1FY18 are primarily due to the exceptional acquisition costs of Wellkin Hospital and related operational losses incurred during the period under the review. However, during this period FCD has posted a satisfactory performance. GCA was Mur 55 million in FY17. Higher debt, due to Wellkin acquisition, has led to higher gearing.

Current ratio was above unity as on June 30, 2017. Average bank limit utilization during last 12 months was around 30% as confirmed by management and Afrasia Bank, bankers of MSCL.

Disclaimer

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In case of partnership/proprietary concerns, the rating/outlook assigned by CRAF is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure I

Rating Symbols

Long /Medium-term Instruments

Symbols	*Rating Definition*
CARE MAU AAA	Instruments with this rating are considered to have the highest degree of safety regarding timely servicing of financial obligations, in Mauritius. Such instruments carry lowest credit risk.
CARE MAU AA	Instruments with this rating are considered to have high degree of safety regarding timely servicing of financial obligations, in Mauritius. Such instruments carry very low credit risk.
CARE MAU A	Instruments with this rating are considered to have adequate degree of safety regarding timely servicing of financial obligations, in Mauritius. Such instruments carry low credit risk.
CARE MAU BBB	Instruments with this rating are considered to have moderate degree of safety regarding timely servicing of financial obligations, in Mauritius. Such instruments carry moderate credit risk.
CARE MAU BB	Instruments with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations, in Mauritius.
CARE MAU B	Instruments with this rating are considered to have high risk of default regarding timely servicing of financial obligations, in Mauritius.
CARE MAU C	Instruments with this rating are considered to have very high risk of default regarding timely servicing of financial obligations, in Mauritius.
CARE MAU D	Instruments with this rating are in default or are expected to be in default soon.

Modifiers {"+" (plus) / "-"(minus)} can be used with the rating symbols for the categories CARE MAU AA to CARE MAU C. The modifiers reflect the comparative standing within the category.

Rating Outlook

The rating outlook can be ‘Positive’, ‘Stable’ or ‘Negative’.
A ‘Positive’ outlook indicates an expected upgrade in the credit ratings in the medium term on account of expected positive impact on the credit risk profile of the entity in the medium term.
A ‘Negative’ outlook would indicate an expected downgrade in the credit ratings in the medium term on account of expected negative impact on the credit risk profile of the entity in the medium term.
A ‘Stable’ outlook would indicate expected stability (or retention) of the credit ratings in the medium term on account of stable credit risk profile of the entity in the medium term.

Short term Instruments

Symbols	**Rating Definition**
CARE MAU A1	Instruments with this rating are considered to have very strong degree of safety regarding timely payment of financial obligations, in Mauritius. Such instruments carry lowest credit risk.
CARE MAU A2	Instruments with this rating are considered to have strong degree of safety regarding timely payment of financial obligations, in Mauritius. Such instruments carry low credit risk.
CARE MAU A3	Instruments with this rating are considered to have moderate degree of safety regarding timely payment of financial obligations, in Mauritius. Such instruments carry higher credit risk as compared to instruments rated in the two higher categories.
CARE MAU A4	Instruments with this rating are considered to have minimal degree of safety regarding timely payment of financial obligations, in Mauritius. Such instruments carry very high credit risk and are susceptible to default.
CARE MAU D	Instruments with this rating are in default or expected to be in default on maturity.

Modifiers {"+" (plus) / "-"(minus)} can be used with the rating symbols for the categories CARE MAU A1 to CARE MAU A4. The modifiers reflect the comparative standing within the category.