Brief 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; Outlook: Stable]**	**Reaffirmed**
Long/Short term Bank Facilities - Overdraft	50	**CARE MAU A; Stable/ CARE MAU A1 [Single A; Outlook: Stable/A One]**	**Reaffirmed**

Rating Rationale

The ratings assigned to The Medical & Surgical Centre Limited ("MSCL") derive strength from its experienced promoters & management team, leadership position of MSCL in the private healthcare sector of Mauritius, both Clinique Darne ("CD") and Wellkin Hospital ("Wellkin") being multi-specialty hospitals with state of the art technology, association with eminent doctors, gradual increase in occupancy level in Wellkin since its takeover; and envisaged growth in health insurance, which is expected to propel growth in the healthcare sector. The ratings also derive strength from MSCL being part of the CIEL group (CIEL Limited - rated CARE MAU AA; Stable/ CARE MAU A1+).

The ratings are, however, constrained by risk associated with predominantly debt-funded acquisition of Wellkin hospital, the relatively lower occupancy in Wellkin which has tempered the overall performance of MSCL and susceptibility of the healthcare sector to risks arising from mishandling of a case or negligence on part of any doctor and/or staff. The ratings also take note of the discontinuance of its operations & maintenance (O&M) contract with Fortis Healthcare Limited; albeit MSCL's management has articulated that this is not expected to have any material adverse impact on its operations.

Ability of MSCL to significantly improve occupancy & profitability in Wellkin, ability to manage working capital effectively, ability of the new executive management team to manage operations of both hospitals effectively 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 by a group of leading sugar manufacturers, to take over the Clinique Darne.

In January 2009, CIEL group and Fortis Healthcare Limited (FHL) 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 December 31, 2018, CIEL Healthcare (subsidiary of CIEL) owns 58.6% and FHL owns 28.89% 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.

Post consolidation of Wellkin Hospital's operations within MSCL, both the hospitals together have 262 operational beds, including 9 operating theatres, and medical and paramedical services across 40 specialties. Currently, CD is operating at an occupancy rate of around 84% and Wellkin at 60-65%. MSCL also operates a café named Café du Volcan, located in CD. Clinique Darne and Wellkin are the only 2 private and international standard hospitals in Mauritius offering comprehensive medical facilities.

As per communication dtd. August 21, 2018, Board of MSCL decided not to renew the operational & maintenance contract with Fortis and also intimated that the executive management team of the MSCL will assume the direct management of both Wellkin and CD as from January 1, 2019. The Board also announced the appointment of Olivier Schmitt as the Chief Executive Officer of MSCL, effective as from January 1, 2019.

In FY18, MSCL posted a revenue of Mur 1,726 million (Mur 1,216 million in FY17) and net loss of Mur 19.6 million (Mur 24.7 million in FY17). In FY18, revenue increased by 42% from FY17 due to improved performance of Wellkin. EBITDA grew by 65% from FY17 to FY18. GCA was Mur 102 million in FY18, improved from Mur 55 million in FY17. Overall gearing ratio also improved to 1.16 as on June 30, 2018 due to lower working capital borrowings.

Current ratio was above unity as on June 30, 2018. Average bank limit utilization during last 12 months was well below 40%.

In Q1FY19, MSCL has achieved a turnover of Mur 451 million and PAT of Mur 1.8 million vis-à-vis turnover of Mur 417 million and loss of Mur 20 million in Q1FY18.