

Rating Rationale
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

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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.

CREDIT RISK ASSESSMENT

Experienced promoters & management team

CIEL group, through its investment in CIEL Healthcare, owns, operates and manages assets in the healthcare sector in Mauritius and across Sub-Saharan Africa. Its main investments are controlling stakes in MSCL which owns FCD and Wellkin in Mauritius, and International Medical Group Limited, leading provider of private healthcare services in Uganda and Hygeia Nigeria Limited, Nigeria's leading private healthcare company. CIEL group has been managing the FCD for more than 8 years and Wellkin for last 1 year.

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. 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).

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The day to day operations of MSCL (FCD & Wellkin) are looked after by Mr. Sukhmeet Sandhu, having 34 years of experience with Fortis Healthcare Limited and TATA Steel. He is assisted by Ms. Unnati Negi (Chief Operating Officer of Fortis Clinique Darné), Mr. Mohit Singh (Chief Operating Officer of Wellkin Hospital), Dr Ashish Sharma (Head of Medical Services at Fortis Clinique Darné) and Dr. Deepak Singh (Head of Medical Services at Fortis Clinique Darné). Ms. Negi was Head-Operations at Fortis Memorial Research Institute – FMRI – Allied Hospitals before being deputed to Mauritius. Mr. Mohit has over 16 years of experience in sales and operations at Fortis Escorts Hospital and was also part of the International business team of Fortis Healthcare Limited. Dr. Ashish Sharma, comes with 12 years of rich experience in providing inpatient care in Haematology, Oncology, Cardiology and Renal care. Dr Deepak is holder of a MD in Internal Medicine and has 6 years of experience at Fortis Healthcare Limited. 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 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 management team overlooking the operations of the hospital are from Fortis group. As per the contract, FHL gets 3% of the total turnover and 15% of the EBIDTA. The O & M Agreement is for a duration of 10-years 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 tertiary healthcare services in various fields (Cardiology, Cardiac Surgery, Orthopaedics, Rheumatology Neurology, Vascular and Thoracic Surgery, Gynaecology, Paediatric Surgery, Dental, Dermatology, ENT, Endocrinology, Gastroenterology, Ophthalmology, Oncology, Pulmonology, Physiotherapy etc.) with specialists available round the clock exclusively for the hospital. It is equipped with state of the art equipment - modular OTs and state-of-the-art ICUs (13 beds of the hospital including ICU and 2 IICU). FCD is the oldest & most renowned hospital in Mauritius and its neighbouring 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.

Like FCD, Fortis Wellkin also offers a wide range of medical facilities including 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. Fortis Wellkin offers the most comprehensive Orthopaedic care in the region and employs Medical experts with vast experience to perform complex bone, joint and spine surgeries. The

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Consultants at the Urology Centre use the latest and advanced techniques to treat kidney, urinary, bladder and prostate problems. The hospital has recently acquired holmium lazer.

Association of experienced & eminent doctors

Both the hospitals have qualified doctors & surgeons (more than 300) and well-trained staff (more than 500). 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. All departments have dedicated teams of doctors. The Hospital has managed to retain all its 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.

***Increase in occupancy level in Wellkin Hospital with stagnant occupancy level in FCD
Fortis Clinique Darne***

For the year ending/As on Mar.31,	2015	2016	2017	July 17-Feb 18
No. of beds	112	112	112	112
Occupancy rate – days (%)	72%	82%	82%	84%
Average no. of days per patient	2.48	2.57	2.58	2.59
Average revenue per occupied bed per annum (Mur Million)	8.20	8.55	9.30	9.26

Fortis Wellkin

For the year ending/As on Mar.31,	*CY16	Jan- July 17	July 17-Feb 18
No. of beds	150	150	150
Occupancy rate – days (%)	45%	55%	65%
Average no. of days per patient	1.50	2.12	2.57
Average revenue per occupied bed per annum (Mur Million)	7.5	9.69	9.30

**prior to its acquisition by MSCL*

The range of specialized healthcare services offered by both FCD & Wellkin and association of quality & renowned doctors has increased inflow of patients. While FCD’s occupancy rate continued to be over 80%, the occupancy rate in Wellkin has also increased substantially from 45% to 65%, post takeover by MSCL.

Increasing Revenue from in-house patients

As on Mar.31,	2015 (12M)	2016 (12M)	2017 (12 M)	July 17-Feb 18 (8 M)
Gross revenue	Mur Million			
In-house patients	475.2	589.4	1,062.5	1,132.5
Outdoor patients	150.9	184.6	143.0	197.3
Other Income	11.8	12.3	10.5	15.2
Total	638.0	786.3	1,216.4	1,345.1
% of gross revenue				
In-house patients	74.8%	74.9%	87.4%	84.2%

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Outdoor patients	23.4%	23.5%	11.7%	14.7%
Others	1.8%	1.6%	0.9%	1.1%

Revenue increased in FY17 and during the current period (July 2017-Feb 2018) due to acquisition of Welkin Hospital and steady increase in number of patients (both in-house & outpatients) in Wellkin 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.

Both the hospitals have different varieties of rooms to cater to patients from various strata of society with room rent ranging from Mur 2,000-3,000/- per day (for day care) to Mur 4,500-7,000/- per day (for single room).

Both the hospitals provide medical facilities to all walk-in patients. The company also has a marketing force which interacts with various potential corporate customers operating in & around Mauritius on a regular basis to build up business relationship and enter into tie-ups to provide regular medical facilities to the employees of such corporates. In such cases, the client corporate foots the bill for the medical services provided to its employee, often through medical insurance scheme of insurance companies. The hospital also works closely with major insurance players like – Swan, Mauritius Union, Med scheme, Mauritius Eagle, Sicom and NIC.

Steady improvement in performance of Wellkin hospital

Post takeover, by MSCL, the occupancy of Wellkin has gone up from 45% to more than 65%. The management is trying to drive sustainable operational efficiencies at Wellkin by reducing cost and enhancing optimal synergies between Fortis Clinique Darné and Wellkin. Wellkin has started posting positive EBIDTA (February & March 2018) and is expected to post positive PAT in FY19. In FY17, MSCL achieved higher than projected EBIDTA, however PAT and GCA were lower than projected.

Fragmented nature of the industry

The Mauritian Healthcare Industry provides a unique plan in Africa which enables the sharing of both the public sector and the private sector. The healthcare sector employs around 8,500 people and accounts for 4.4% of the Mauritian GDP. The sector 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 is around Mur 5 billion and the industry is expected to grow at around 5% in FY18.

The public sector provides free medical services and operates 5 public hospitals (A G Jeetoo Hospital in Port Louis, Sir Seewoosagur Ramgoolam National Hospital in Pamplemousses, Victoria Hospital in

Quatre Bornes, Flacq Hospital in Flacq and Candos in the district of Plaine-Wilhems), 6 specialized public hospitals and 8 specialty centers, having a capacity of over 4,500 beds managed by around 3000 nurses and 600 doctors.

The private sector, being the oldest medical service provider on the island, provides its services in over 20 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 2,500 nurses and staffs.

The largest private clinics are Wellkin 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.

Dip in financial performance in FY17 & H1FY18 due to acquisition of lossmaking Wellkin Hospital

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

MSCL has a policy to stock inventory of around 30-40 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 Medclaim/ 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 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.

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).

FINANCIAL PERFORMANCE

Standalone Financial performance of MSCL

Mur Million

For the year ended as on	Mar-15	Jun-16	Jun-16	Jun-17
	12M	12M@, A	15M, A	12M, A
Working Results				
Revenue	633.5	784.7	980.9	1216.4
Total Income	638.0	794.4	993.0	1232.8
EBIDTA	104.8	138.7	173.4	78.4
Depreciation	35.3	38.6	48.2	79.5
Interest	0.1	0.1	0.1	13.2
PBT	69.5	100.0	125.0	(14.3)
PAT	57.2	81.9	102.3	(24.7)
Gross Cash Accruals (GCA)	92.5	120.4	150.5	54.8
Dividend paid/proposed	22.8		57.0	17.1
Financial Position				
Equity share capital	289.8		289.8	289.8
Tangible networkth	440.7		485.8	423.7
Total debt	1.5		2.0	519.8
- Long term debt	1.5		2.0	451.1
- Short term debt	0.0		0.0	68.7
Cash & Bank balances	92.5		230.6	71.4
Key Ratios				
Profitability (%)				
EBIDTA / Total income	16.55		17.67	6.45
PAT / Total income	8.97		10.30	N.M.
ROCE- operating (%)	11.01		17.38	N.M.
RONW (%)	10.77		17.67	N.M.
Solvency (times)				
Debt equity ratio	0.00		0.00	1.06
Overall gearing ratio	0.00		0.00	1.23
Interest coverage (times)	1417.46		1313.03	5.95
Long term Debt/ GCA	0.02		0.01	8.23
Total debt/ GCA	0.02		0.01	9.48
Liquidity (times)				
Current ratio	2.37		2.05	1.05
Quick ratio	1.95		1.83	0.78
Turnover (days)				
Avg. Collection Period (days)	39		29	30
Avg. Inventory (days)	23		19	16
Avg. Creditors (days)	64		55	46
Op. cycle (days)	(3)		(7)	0

@-annualised NM- Not Meaningful A-Audited Figures

Adjustments

1. Tangible networkth 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 Networkth.
4. Total Income includes revenue, other operating Income and interest on deposits.

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Annexure - I

1. Details of proposed Long-term loan/Bond Issue

Banker / lender	Type of facility	Amount (Mur Million)	Debt repayment terms
AfrAsia Bank Mauritius	Long term loan	450.00	Tenure – 10 years Moratorium – 2 years Repayable in 8 annual ballooning instalments commencing from FY19
Grand Total		450.00	

The repayment terms are as follows:

	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
Principle	11.7	48.2	50.3	52.7	55.2	57.9	60.6	63.5	49.8

2. Details of Bank Facilities

Banker / lender	Type of facility	Amount (Mur Million)
AfrAsia Bank Mauritius	Overdraft	50.00
Grand Total		50.00

Disclaimer

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