

August 26, 2011

Mr. K.R Chawla,  
Chairman  
Goodwill Hospital and Research Centre Ltd.  
705, Kailash Building,  
26, Kasturba Gandhi Marg,  
New Delhi – 110001

Confidential

Dear Sir,

IPO Grading

Please refer to your request for grading of the Initial Public Offering (IPO) of Goodwill Hospital and Research Centre Ltd. (GHRC).

2. CARE has assigned '**CARE IPO Grade 3**' [**Grade Three**] to the proposed IPO issue of GHRC. '**CARE IPO Grade 3**' indicates **average fundamentals**. CARE assigns IPO grades on a scale of Grade 5 to Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals. CARE's IPO grading is an opinion on the fundamentals of the issuer. The grade assigned to any individual issue represents a relative assessment of the 'fundamentals' of the issuer.
3. Please note that wherever '**CARE IPO Grade 3**' appears, it should invariably be followed by the definition '**CARE IPO Grade 3**' [**Grade Three**] indicates 'average fundamentals'.
4. The explanatory notes regarding the grading symbols of CARE for IPO grading are given in **Annexure 1**. The rationale for this grading will be communicated to you separately.
5. Please arrange to get the grading revalidated, in case the proposed IPO issue is not made within two months from the date of this letter.
6. Please note that the IPO grading is a one time exercise undertaken before an IPO issue and it does not have any ongoing validity.



7. Please note that as per the existing regulations, CARE is required to disclose all IPO gradings. As such, in the absence of any request for review of grading within a week of this letter, CARE will disclose this IPO grading to the public.
8. Please note that the disclaimer as given hereunder should be disclosed wherever the IPO grading assigned by CARE is mentioned, including offer document and issue prospectus.
9. If you need any clarification, you are welcome to approach us in this regard.

Thanking You.

Yours faithfully,



[Kapil Sachdeva]  
AGM



[Deewaker Chakarvarti]  
Rating Analyst

**DISCLAIMER:**

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Annexure 1

**CARE IPO grading Scale**

<b>CARE IPO grade</b>	<b>Evaluation</b>
CARE IPO Grade 5	Strong fundamentals
CARE IPO Grade 4	Above average fundamentals
CARE IPO Grade 3	Average fundamentals
CARE IPO Grade 2	Below average fundamentals
CARE IPO Grade 1	Poor fundamentals



November 16, 2011

**Mr. K.R Chawla,**  
**Chairman**  
**Goodwill Hospital and Research Centre Ltd.**  
705, Kailash Building,  
26, Kasturba Gandhi Marg,  
New Delhi – 110001

**Confidential**

Dear Sir,

**IPO Grading**

Please refer to our letter dated August 26, 2011 and your request for the **revalidation** dated October 12, 2011 of the grading of the Initial Public Offering (IPO) of Goodwill Hospital and Research Centre Ltd (GHRC).

2. CARE has retained '**CARE IPO Grade 3**' [**Grade Three**] to the proposed IPO issue of GHRC. '**CARE IPO Grade 3**' indicates **average fundamentals**. CARE assigns IPO grades on a scale of Grade 5 to Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals. CARE's IPO grading is an opinion on the fundamentals of the issuer. The grade assigned to any individual issue represents a relative assessment of the 'fundamentals' of the issuer.
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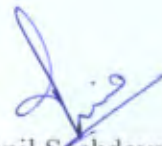
If you need any clarification, you are welcome to approach us in this regard.

Thanking You,

Yours faithfully,

A handwritten signature in blue ink, appearing to read "Deewaker Chakarvarti".

[Deewaker Chakarvarti]  
Analyst

A handwritten signature in blue ink, appearing to read "Kapil Sachdeva".

[Kapil Sachdeva]  
AGM

Encl : As above

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**Annexure I**  
**Grading Rationale**  
**Goodwill Hospital and Research Centre Ltd (GHRC)**

**Grading Assigned**

Facilities/Instruments	Amount	Grading <sup>1</sup>	Remarks
IPO	Rs.62 cr (approximately)	CARE IPO Grade 3 [Three]	Assigned

CARE has assigned a 'CARE IPO Grade 3' to the proposed Initial Public Offer (IPO) of Goodwill Hospital and Research Centre Limited (GHRC). CARE IPO Grade 3 indicates average fundamentals. CARE assigns IPO grades on a scale of Grade 5 to Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals. CARE's IPO grading is an opinion on the relative assessment of the fundamentals of the issuer.

**Grading rationale**

*The grading reflects GHRC's consistent growth in the operations over the years, improving operating parameters of the hospital and high profitability margins due to the specialized facilities in the niche segments viz Gamma Knife Surgery. The grading also takes into account the strength derived from the entrepreneurial experience of the promoters, experienced senior management and favorable industry scenario.*

*The grading, however, is constrained by the limited experience of the promoters in managing multi-specialty hospital and small scale of operations. Further, the grading also takes into consideration the intense competition in the healthcare industry in NCR and Delhi region.*

**Background**

Goodwill Hospital and Research Centre Limited (GHRC) was incorporated in June 2000 by a team of ten doctors and commenced operations as a nursing home in July' 2002. In December 2007, the management of the company was taken over by Ojjus Medicare Private Limited (OMPL) promoted by Mr. Harvansh Chawla. The operations of the company have been reorganised and upgraded over the period to set up a 220-bed multi-speciality hospital in Noida, Uttar Pradesh. Further, as on March 2010, GHRC had a Wholly-Owned Subsidiary (WOS) viz Ojjus Fidelity Healthcare Pvt. Ltd (OFHPL), which is setting up a hospital in Faridabad, Haryana. GHRC had an investment of Rs.6.13 cr as on March 31, 2010 in OFHPL.

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<sup>1</sup> Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications

### **Promoters and Management**

GHRC is a Wholly Owned Subsidiary of OMPL which in turn is promoted by Mr Harvansh Chawla. Mr Hravansh Chawla has business interests in the areas of consulting, real estate, healthcare, etc through his various group companies/entities. K. R. Chawla & Co. (KRCCO) is the flagship company and is a law firm in India, with office(s) in Delhi, Bangalore, Chennai, San Francisco (U.S.A.) and a representative office in Singapore.

Mr KR Chawla is currently the chairman of GHRC while the day-to-day affairs are handled by Mrs. Namrata Chawla in the capacity of Managing director.

### **Corporate Governance**

The board of GHRC comprised of ten directors including five independent directors. The company has constituted prescribed committees such as Audit Committee, Remuneration Committee and Shareholders/Investor Grievance Committee headed by independent directors as per Clause 49 of the listing agreement specified by the Securities and Exchange Board of India (SEBI).

### **Current Operations**

GHRC currently operates a 220 bed multi-specialty hospital at Noida with focus on areas such as Cardiology, Orthopaedics, Laparoscopic Surgeries and Neurosciences. The hospital's speciality is Gamma Knife Machine (installed in FY09; financial year refers to 12 months from April- March) which was put in use during FY10. Gamma Knife is speciality equipment used for non-invasive treatment of brain tumors, vascular malformations and functional diseases like parkinson's disease, trigeminal neuralgia and psychiatric disorders using précised focused gamma rays. Gamma Knife procedures being the super-specialty treatments contributed 33% and 31% to the total income in FY10 and FY11 respectively.

The inpatient admission has been increased from 16 per day during FY10 to 26 per day during FY11. The outpatient registration has also increased to 88,457 during FY11 from 57,000 patients during FY10; an increase of about 55% over the previous year. The average revenue per bed per day has increased to Rs.13000 in FY11 from Rs.7000 in FY10.

The operations of the hospital are supported through a team of doctors and other medical staff. As on June 30, 2011, GHRC had a team of 32 full-time doctors supported by 72 nurses and 135 other technical and non-technical staff.



## **IPO Details**

GHRC is proposing to make a public offer of equity shares amounting to an aggregate of Rs.62.00 cr. The total number of shares to be issued and the price band is yet to be decided. The IPO proceeds shall be used to set up a diagnostic centre at Faridabad (Rs.16.43 cr), to set-up six new polyclinics in different cities at an estimated cost of Rs.32.00 cr, prepayment of the long-term debt of Rs.10.00 cr and the balance for general corporate purposes.

## **Project Details**

GHRC proposes to set up a diagnostic center at a 700-bed hospital being set up by its subsidiary, OFHPL at Faridabad. GHRC intends to utilize Rs.16.43 cr out of the issue proceeds to set up the diagnostic Centre. The proposed diagnostic centre is expected to be completed in Q1FY13 and as on date the company has not spent any amount on the project.

GHRC intends to set up one polyclinic each in Muzzafarnagar, Bulandsahar, Merrut, Sharanpur, Hapur and Moradabad. The company intends to utilize Rs.32.74 cr out of the proceeds of the issue for setting of six polyclinics. The same is expected to be operational in Q1FY13 and as on date the company has not spent any amount on the same.

## **Financials**

GHRC's net revenues increased at a CAGR of 104% over the last three years (FY08-10) driven by increase in the inpatient and outpatient registration over the last three years. During FY10, the company's net sales increased almost 119% vis-à-vis FY09 on account of the commencement of niche segment viz. Gamma Knife treatments.

The PBILDT margin improved from almost 25% in FY08 to 75% in FY10 mainly on account of the increased contribution of procedures in the Gamma Knife segment.

The company's PAT also increased in line with the increase in PBILDT over the last three years except for FY10. PAT margin declined in FY10 on account of higher capital charges (interest and depreciation). In line with the increased profitability during FY10, the return on the capital employed as well as networth increased during the year.

With debt-funded capex in the past, GHRC's debt to equity and overall gearing ratios were high at 2.69x and 2.73x respectively as on March 31, 2010. The adjusted overall gearing after deducting investments in the subsidiary stood at 3.78x as on March 31, 2010

The hospital operations are less working-capital intensive as the receivables are low and the inventory consists mainly of the fast-moving items. In case of GHRC, as on March 31, 2010, the company's current ratio stood at 0.24x mainly on account of high current portion of the long-term debt. Also the company's working-capital cycle during FY10 was negative on account of high creditor's period which comprises of trade creditors, payment dues to doctors, marketing professionals and etc.

As per the audited results for eight months ending November 30, 2010, GHRC reported a total operating income of Rs.29.82 cr with PBILDT and PAT of Rs.20.96 cr and Rs.8.92 cr respectively.

### **Industry Analysis**

The Indian healthcare industry has emerged as one of the largest services in the country. At present, the healthcare spending in India is 5% of GDP and is expected to contribute 6% of GDP in 2012. The Indian healthcare industry is estimated to be around US \$ 35 billion in 2010 and is expected to post a CAGR of 15% to become a US \$ 280 billion market by 2022.

The industry is dominated by the private sector with its 65% contribution to the total medical facilities and 35% contribution by the government. Around 90% of the private sector is being serviced by the unorganised sector.

The key factors driving private participation in India's healthcare delivery sector are India's inadequate infrastructure, its increasing population base, increase in the number of senior citizens, rising insurance penetration, higher incidence of the lifestyle-related diseases and increasing awareness. Medical tourism is another growth driver as India provides quality healthcare services at much lower prices compared to other global destinations like such as Thailand, Philippines, and Singapore.

Further, the competition in NCR region remains a challenge for AMSL given the presence of players like Max Healthcare, Apollo, Fortis etc as well as new projects being implemented by these established players.



**Financial Performance**

(Rs in Cr)

<i>Y.E. Mar.31,</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>
	<i>(12m,A)</i>	<i>(12m,A)</i>	<i>(12m,A)</i>
Income from Operations	5.49	10.46	22.90
PBILDT	1.35	5.45	17.17
Interest	0.37	2.07	3.75
Depreciation	0.52	1.10	7.81
PBT	0.47	3.66	5.56
PAT (After def Tax)	0.15	2.01	2.75
Gross Cash Accruals	0.97	4.49	13.38
<b>Financial Position</b>			
Equity Share capital	3.72	5.00	5.00
Net Worth	6.05	12.57	22.14
<b>Key Ratios</b>			
<i>Growth(%)</i>			
Growth in Total income (%)	51.47	90.56	118.86
Growth in PAT (%)	443.64	1239.27	36.46
<i>Profitability (%)</i>			
PBILDT / Total Income (%)	24.68	52.05	74.99
PAT / Total Income (%)	2.74	19.25	12.00
ROCE (%)	10.39	11.40	12.41
RONW (%)	2.99	21.63	15.83
EPS (Rs.)	0.40	4.46	5.50
<i>Solvency</i>			
<i>Long Term</i>			
Debt Equity Ratio	0.40	4.36	2.69
Overall Gearing	0.47	4.36	2.73
Interest coverage (PBILDT/Interest)	3.65	10.50	4.58
Term Debt/GCA	2.51	12.20	4.45
<i>Liquidity</i>			
Current ratio	1.32	0.75	0.24
Quick ratio	1.03	0.63	0.21
Avg. Colln. Period (days)	27	16	8
Average Inventory (days)	24	17	20
Average Creditor (days)	25	42	88
Operating cycle (days)	26	-9	-60

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### Press Release

#### **CARE assigns 'CARE IPO GRADE 3' to the proposed IPO of Goodwill Hospital and Research Centre Ltd.**

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GHRC posted a PAT of Rs.2.75 cr on a total income of Rs.22.90 cr for FY10 (FY refers to the 12 month period from April to March). As per the audited results for eight months ending November 2010, GHRC reported total operating income of Rs.29.82 cr with PBILDT and PAT of Rs.20.96 cr and Rs.8.92 cr respectively.

**Analyst Contact**

Name: Kapil Sachdeva

Tel # 01123318701

Email: [kapil.sachdeva@careratings.com](mailto:kapil.sachdeva@careratings.com)

*CARE classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries /regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.*

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