

31 May 2018

**India
Case
Profile**

**Sevenhills
Healthcare
Private Limited**

OVERVIEW

Sevenhills Healthcare Private Limited (SHPL), a Visakhapatnam, Andhra Pradesh-based hospital operator, was [admitted into bankruptcy](#) by the National Company Law Tribunal's (NCLT) Hyderabad bench on 13 March 2018 at the behest of a petition from Axis Bank. The company's two largest shareholders are Axis and a JPMorgan private-equity vehicle.

Resolution professional Alvarez & Marsal's Abhilash Lal has until 9 September 2018 to put together a creditor-approved resolution plan, although that can be extended by a maximum 90 days, to 8 December 2018, unless there are related litigation that drags out the process.

As of 5 April, Lal had received claims totaling INR 15.46bn (USD 242m), of which INR 12.96bn (USD 203m) have been verified, including INR 12.63bn (USD 194.06m) from financial creditors (as details on page 3). While Axis appears on the list as the largest creditor, with INR 7.68bn (USD 115.77m) claims, JM Financial Asset Reconstruction Co (JMARC) and BofA-Merrill Lynch – or whomever they are fronting for – bought up enough of the debt since late April [to control the bankruptcy process](#), as reported by *Debtwire*. The [duo bought](#) Axis' INR 4bn (USD 60.24m) bilateral loan at about 50.3 and a INR 5bn (USD 75.3m) syndicated facility at slightly above 43.9. As JMARC appears on the RP list as already holding INR 1.36bn (USD 20.53m) claims, the pair have more than the 75% threshold required to approve a resolution plan.

SHPL founder Dr. Jitendra Das Maganti's formerly 50.1% stake was reduced last year to 24.55% when Axis enforced on a pledged 25.55% stake. JPMorgan-managed Asian Infrastructure & Related Resources Fund (AIRRO) owns the remaining 49.9%.

KEY EVENTS/HEADLINES

30-May-18: Ten parties including: [Bain, Apollo Global Management, Bank of America Merrill Lynch, Apollo Hospitals, Aster DM and Narayana Health in partnership with Piramal Group, have shown interest](#) in acquiring the equity of SHPL, reports *Economic Times*.

28-May-18: [JM Financial ARC and BAML close their purchase of INR 9bn](#) from Axis bank and a consortium of lenders, reported *Debtwire*.

30-Apr-18: Axis bank and a consortium of lenders [sell INR 9bn of SHPL debt](#) to JM Financial ARC and BAML, as per *Debtwire*.

13-Mar-18: [NCLT admits Axis' insolvency petition against](#) Sevenhills.

02-Mar-18: The Mumbai government [seals the administrative office of Sevenhills' Mumbai hospital](#) after it fails to pay INR 90m overdue property taxes prior to a 28 February deadline, *Hindustan Times* reports.

23-Jan-18: [JPMorgan informs the NCLT that its last-minute rescue attempt for Sevenhills failed](#), reported *Mumbai Mirror*. The same publication reported on 12 January that under the failed plan [arrived with SHPL's Axis-led lenders](#), JPMorgan would have acquired full control of the Mumbai Hospital.

28-Dec-17: [Fifty doctors at Sevenhills' Mumbai hospital go on indefinite strike](#) in protest against the non-payment of salaries since July 2017, reported *Times of India*.

20-Nov-17: [Axis files an application with NCLT's Hyderabad bench to put Sevenhills into bankruptcy](#), as per an *Economic Times* article. Prior to the application, Aion Capital Partners, Bain-Piramal, Reliance Industries and Netcare proposed taking over the business, according to the same article.

07-Nov-17: [Aion Capital in talks with Axis bank](#) and a consortium of lenders to SHPL to purchase the company's debt, reported *Livemint*.

16-Jun-17: [Sevenhill's lenders appoint Grant Thornton to monitor day to day transaction](#) of the group's Mumbai hospital, [as per the NCLT order dated 13 March 2018](#).

18-Feb-17: [JP Morgan and the promoter seek to buy out each other's stake](#) in SHPL, *Economic Times* reported.

18-May-16: [Axis Bank invokes the promoters share pledge](#) after the company failed to repay INR 3.52bn dues, according to [13 March 2018 NCLT filing](#).

ASSET DETAILS

Hospital	Description	Licensed capacity	Land occupied	Number of patients treated during FY17 ending 31 March
Mumbai Hospital	Multi-specialty hospital on land leased from The Municipal Corporation of Greater Mumbai for INR 90m annually for 60 years from 2005. It has its own sewage treatment plant.	306 beds with plan for total 1,500	17 acre land with a built-up area of 2 million sq. ft.	5,456
Visakhapatnam Hospital	Opened in 1986	250 beds	-	-

Source: *Debtwire*, Ministry of Corporate Affairs (For Mumbai hospital details), *Business Standard* (for Visakhapatnam hospital details).

CASE DETAILS

Petitioner	Axis Bank Limited
Date of petition	20-Nov-17
Date accepted into bankruptcy	13-Mar-18
Date of default	2-Apr-16
Default Amount	INR 7.37bn
Initial deadline for plan (180 days)	9-Sep-18
Possible extended deadline for plan (270 days)	8-Dec-18
Court	NCLT Hyderabad
Judge	Rajeswara Rao Vittanala
Interim Resolution professional	Abhilash Lal (Alvarez & Marsal)
Petitioner senior counsel	S. Niranjana Reddy
Sevenhills senior counsel	Alok Dhir

POTENTIAL BIDDERS

Apollo Global Management
 Apollo Hospitals
 Aster DM and Narayana Health with Piramal group
 Bain
 Bank of America Merrill Lynch
 Manipal Hospitals

Source: *Economic Times*

DEBTOR SUMMARY

Promoters	Maganti family, JPMorgan
Sector	Hospital Services
Total Debt (as of 31 March 2017)	INR 11.17bn
FY17 EBITDA	(INR 152.5m)
Leverage (FY17)	-

BACKGROUND AND DESCENT

Sevenhills Healthcare Private Limited (SHPL) owns two multi-specialty hospitals, one located in its home city of Visakhapatnam, Andhra Pradesh, and the other in Mumbai.

Founder Dr. Jitendra Das Maganti launched the Visakhapatnam hospital in 1986, and then rolled it into the newly incorporated Sevenhills in April 2004. The Mumbai hospital opened in July 2010 on a 17-acre plot leased from the Municipal Corporation of Greater Mumbai (MCGM), as the city government is known, for 60 years. Until mid-2017, Dr. Maganti held a 50.1% stake in the company, while the remaining 49.9% stake was held by JP Morgan-managed Asian Infrastructure & Related Resources Fund. But then in August 2017, after a court battle that rose all the way to the Supreme Court, he was forced to transfer a 25.55% stake to Axis Bank, which had enforced on a share pledge a year earlier because of non-payment of INR 3.52bn loans, as per the bankruptcy order. His remaining stake is pledged to a lender syndicate.

How it got here: Sevenhills took on a significant amount of debt beginning in 2006 to fund the construction of its planned 1,500 bed hospital in Mumbai. But in part because of battles with the city government, the company never managed to get the hospital fully operational and thus was unable to service its debt.

In 2005, Sevenhills signed the 60-year lease on the 17-acre Mumbai hospital land. Under the lease deal with the city, the hospital was to house 1,500 beds, of which 300 beds were to be allocated to the poor and municipal employees. To fund construction, the company in April 2005-March 2010 raised INR 4.49bn debt secured by the leased land, hospital buildings and receivables. In addition, the company received funding from the JP Morgan' private equity fund, which [initially purchased a 35% stake in 2008 for USD 72m \(INR 3.08bn\) and upped its shareholding for another USD 50m \(INR 2.81bn\)](#), according to *Economic Times*.

The hospital first opened in 2010 with only 100 beds. A court filing from [November 2011](#) shows that Sevenhills, in a refinancing deal with Axis Bank for fresh funds, sought to remortgage the constructed hospital and the underlying leasehold land. But the new mortgage required a no-objection certificate (NOC) from the city, which would not provide it on the grounds that the company had not complied with its commitment to allocate a certain number of beds to poor patients and municipal employees. To press its case, the company went to High Court of Bombay, which on 9 November 2011 ordered the city to grant the NOC.

That victory proved to be Pyrrhic. While granting the NOC, the [city would not grant the hospital a license to operate at full capacity](#) because of the lingering dispute over bed allocations, according to the FY17 annual results. As of 31 March 2017, the Mumbai hospital was only operating 306 beds, which was insufficient to cover overhead, the FY17 annual results state.

From the beginning of FY14, the earliest period that financials are available on India's Ministry of Corporate Affairs (MCA) website, and FY17, the company generated negative EBITDA every year, or a total of INR 705.7m. The company also had a free cash out flow of INR 2.23bn of that period.

On 1 March 2018, the [Mumbai government sealed the administrative office of the Mumbai hospital](#) barring it from accepting new patients and discharging the 15 patients admitted at that time because of unpaid property taxed, according to Hindustan Times.

Past restructurings: With the Mumbai hospital operating well below full capacity, [the company in 2013 reached an agreement with a syndicate of banks^{\(1\)} to extend the maturity of INR 2.95bn loans to March 2025](#) and to capitalize INR 1.06bn, according to a MCA document filed at the time. An MCA document from 2010 shows that the [syndicated facility was supposed to have matured in 2018](#).

[Then in 2014, Axis bank agreed to same terms for its INR 2.14bn hold of the syndicated loan](#), including by capitalizing INR 564.4m interest. In addition, the non-state bank agreed to term out to 2023 INR 1.03bn of an originally INR 1.3bn bilateral loan due March 2019 and to provide new INR 2.65bn loans due March-2025 and an overdraft facility of INR 500m, as per MCA documents from 2014.

As part of the two restructuring deals, Maganti pledged a total 24.55% stake to all the syndicated lenders, including Axis, and 25.55% stake solely to Axis to back the bilat.

With the business flagging, [JP Morgan and the promoter each tried to buy the other out in 2017](#), as per *Economic Times*. JP Morgan was also in discussion with the company's bank lenders on a revival plan, but nothing concrete was submitted, according to a 23 March 2018 [Debtwire article](#). After the promoters failed to come-up with a settlement plan by a 9 June 2017 deadline set by the lenders, SHPL was referred to the NCLT in November 2017, and eventually admitted into bankruptcy proceedings on 13 March 2018.

(1) Syndicate includes Allahabad Bank, Union Bank of India, Canara Bank, Punjab & Sind Bank, Bank of Maharashtra, UCO Bank, State Bank of India, Central Bank of India and Axis Bank.

LARGEST FINANCIAL CREDITORS

As of 5 April 2018					Post trade			
Bank Name	Claimed Amount (INRm)	Claimed Amount (USDm)	Verified Amount (INRm)	Verified Amount (USDm)	Bank name	Amount (INRm)	Amount (USDm)	% of Total Financial Creditor Claims
Axis Bank	7,703	121	7,687	120	BAML and JM Financial ARC ⁽¹⁾	10,363	157	82%
JM Financial ARC	1,366	21	1,363	21	Other Lenders ⁽²⁾	2,272	34	18%
Union Bank of India	955	15	921	14				
State Bank of India	796	12	784	12				
Punjab & Sind Bank	483	8	468	7				
UCO Bank	477	7	464	7				
Canara Bank	631	10	411	6				
Central Bank of India	276	4	274	4				
Bank of Maharashtra	262	4	261	4				
Allahabad Bank	2	0	1	0				
Total for all Financial Creditors	12,964	203	12,635	198	Total for all Financial Creditors	12,635	191	100%
Total Operational Creditors Claims	2,139	33	225	4	Total Operational Creditors Claims	225	4	
Workmen and employees	313	5	98	2	Workmen and employees	98	2	
Others	48	1	0	0	Others	0	0	
Total Claims	15,464	242	12,958	203	Total Claims	12,958	196	

(1) As per *Debtwire* article dated 28 May 2018, JM Financial ARC and BAML have closed the purchase of INR 9bn which includes INR 4bn bilat loan of Axis bank and INR 5bn loan of consortium lenders. The total of INR 10.36bn includes existing JM ARC exposure of INR 1.36bn. (2) Other lenders include banks on the consortium i.e. Union Bank of India, State Bank of India, Punjab & Sind Bank, UCO Bank, Canara Bank, Central Bank of India, Bank of Maharashtra, Allahabad Bank and Axis bank.

CAPITAL STRUCTURE (INRm) AS OF 31 MARCH 2017

Instrument	Issue date	Interest rate ⁽¹⁾	Maturity	Outstanding (INRm)	Outstanding (USDm) ⁽²⁾	Security
Term loans from banks						
Allahabad Bank ⁽³⁾	17-Sep-13	Bank base rate + 2.3%/ Bank base rate + 0.30%	2020 - 2025	695.7	10.7	First charge on (1) the parcel of land covering an area of 57,209 sq metres situated within Municipal Ward at Marol-Maroshi Road, Mumbai. (2) Present and future fixed assets of Mumbai hospital generated from and out of total investment under the Hospital documents. Second charge on all present and future current asset, receivables, book debts of the Mumbai Hospital. Personal guarantee of Jitendra Das Maganti and Renuka Rani Maganti. Collateral Security: Pledge of 24.9m shares of the company held by the promoters with consortium.
Union Bank of India	29-Jul-13			802.6	12.4	
Canara Bank	30-Sep-13			352.1	5.4	
Punjab & Sind Bank	24-Sep-13			423.6	6.5	
Bank of Maharashtra	12-Sep-13			239.6	3.7	
UCO Bank	27-Jul-13			400.7	6.2	
State Bank of Hyderabad	19-Aug-13			343.8	5.3	
State Bank of Travancore ⁽³⁾	17-Aug-13			346.5	5.3	
Central Bank of India	29-Jun-13			244.7	3.8	
State Bank of Mysore	13-Sep-13			259.4	4.0	
State Bank of Patiala ⁽³⁾	24-Jul-13			205.4	3.2	
Loans from Axis Bank						
Term loan and Funded interest term loan for Hospital project (part of consortium loans above)	13-Jun-14	Bank base rate + 2.25% / Bank base rate + 0.25%	2020 - 2025	2,956.3	45.6	Secured by first charge on immovable assets of the Vizag hospital and hypothecation of all movable assets, revenues, all receivables, escrow accounts of the company. Pledge of 25.9m shares equivalent to 25.55% of the company was invoked by Axis in May 2016
Term loan 1 for Medical Ancillary and Service Centre project	13-Jun-14	Bank base rate + 2.25%	31-Mar-23	1,135.3	17.5	
Term loan 2 for Medical Ancillary and Service Centre project	13-Jun-14	Bank base rate + 2.25%	31-Mar-25	1,104.3	17.0	
Working Capital loans	13-Jun-14	12% - 14%	On demand	559.4	8.6	
Corporate Loan	24-Jun-14	Bank base rate + 6%	31-Mar-25	1,101.9	17.0	
Total debt⁽⁴⁾				11,171.4	172.2	
Cash and cash equivalents				64.0	1.0	
Net debt				11,107.4	171.2	

Source: Debtwire, Ministry of Corporate Affairs (1) Interest rate for loans from Axis bank are linked to the Axis bank base rate while the loans from other banks are linked to the lead bank i.e. Allahabad bank base rate. (2) INR/USD 0.01541 as of 31 March 2017, sourced from Oanda.com (3) The loans have been assigned to JM Financial ARC in March and December 2017. (4) Total debt includes INR 1.1bn interest overdue on the loans.

USEFUL LINKS

13-Mar-18	Axis Bank vs Sevenhills Healthcare Pvt Ltd in NCLT
9-Nov-11	Sevenhills vs Municipal Commission of Greater Mumbai in Bombay High Court
-	FY17 Financials
-	FY16 Financials

FINANCIAL SUMMARY

INRm	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	YoY % Δ
Period ending	2013	2014	2015	2016	2017	
Revenue	-	1,761.4	2,062.4	2,249.1	2,367.9	-
Adjusted EBITDA	-	-155.2	-331.3	-66.8	-152.5	-
Adjusted EBITDA margin	-	-	-	-	-	-
Net interest Expense	-983.9	-1,115.7	-1,100.0	-1,160.6	-1,338.9	15.4%
Operating cash flow	58.1	-902.4	-701.0	-388.8	50.6	-
Capital expenditure	-312.9	-120.5	-36.0	-65.0	-64.7	-
Free cash flow	-254.8	-1,022.9	-737.0	-453.8	-14.1	-
Net borrowings	113.1	311.9	163.4	211.4	49.7	-
Equity raised / Dividends	1,600.0	345.0	572.4	184.6	0.0	-
Free cash flow, net	1,458.3	-366.1	-1.2	-57.8	35.6	-
Cash and equivalents	471.8	112.7	92.6	32.1	64.0	99.1%
Total Debt	7,738.4	8,418.8	9,230.7	10,020.9	10,070.6	0.5%
Net Debt	7,266.6	8,306.1	9,138.1	9,988.8	10,006.6	0.2%
Total Debt/Adj. EBITDA	-	-	-	-	-	-
Net Debt/Adj. EBITDA	-	-	-	-	-	-
Adj. EBITDA / cash interest paid	-	-	-	-	-	-

Source: Company filings with Ministry of Corporate Affairs, Debtwire

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