

Rating Rationale
Alka Hospital Private Limited

Rating

Facility	Amount (Rs. In Million)	Rating¹	Rating Action
Long Term Bank Facilities	455.00	CARE-NP BBB- [Triple B Minus]	Assigned
Short Term Bank Facilities	30.00	CARE-NP A3 [A Three]	Assigned
Total Facilities	485.00		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘CARE-NP BBB-’ to the long term bank facilities and ‘CARE-NP A3’ to the short term bank facilities of Alka Hospital Private Limited (AHPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of AHPL derives strength from established track record and experienced directors in the related field, wide range of health services offered, established college of nursing and continuous addition of programs with high occupancy, comfortable financial risk profile and healthy debt service coverage indicators. The rating also factors in growing demand of healthcare services in Nepal, diversified revenue profile and geographical advantage being located at prime locations. The ratings, however, are constrained by recent debt funded capex, exposure to volatile interest rates and presence in fragmented nature of the industry. Ability of the company to profitably scale-up its operations without impacting the debt service indicators shall be key rating sensitivity.

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Established track record and experienced directors in the related field

AHPL is providing health related services for more than 16 years and operating nursing college for more than 10 years. AHPL has two member Board of Directors, chaired by Mr. Tilak Bahadur Puwar Thapa. Mr. Thapa has been related to medicine field for about three decades. He had acted as chairperson of Herguns Nursing Home for five years, chairperson of Chitwan Hospital for six years and chairperson of Om Hospital Chitwan for seven years. Mrs. Bidhya Shrestha, wife of Mr. Thapa, is another director of the company and she has been engaged in medical field since beginning of Alka Pharmacy and acted as chairperson of Alka Polyclinic,

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com

after having worked as nurse at Tribhuvan University Teaching Hospital for 12 years. There are 94 doctors engaged in the services provided by AHPL, most of them are associated with AHPL for around 9-10 years. Similarly, there are 32 faculty members for the nursing college.

Wide range of health services offered

AHPL has been providing wide range of health services to the patients from its two units located at Jawalakhel and Ekantakuna, both in Lalitpur district. AHPL is providing health services with total bed capacity of 100 beds. AHPL has been providing various specialized services in the Hospital and is equipped with 10 bedded ICU with four ventilators providing intensive care for critical Patients.

Established college of nursing, continuous addition of programs with high occupancy

AHPL has engaged in providing nursing courses through Alka Institute of Medical Sciences (AIMS). AIMS runs Proficiency Certificate Level (PCL) Nursing Course with approved number of 40 seats since FY09. Later on during FY11, AHPL had added 40 seats for Post Basic Bachelor in Nursing (PBBN). Further, AIMS has got registered for 40 seats PCL general medicine (health assistant) and 30 seats PCL medical lab technology during FY18. The college has high occupancy ratio of 97% in the current academic year.

Diversified revenue profile

AHPL has diversified stream of revenue profile. AHPL generates revenues from hospital operation, which includes two units with a total capacity of 100 beds, nursing college that offers four different courses, rental revenue from the hospital premises and other operating income.

Comfortable financial risk profile and healthy debt service coverage indicators

Total revenue of AHPL has increased at CAGR of ~17% to Rs.581 Mn during FY18 over FY15, which was increased by ~15% over FY17, due to increase in flow of both inpatients and outpatients and improved hospital occupancy of 83.61% during FY18 (FY17: 74.32%). PBILDT margin was healthy at 24.83x during FY17. The debt equity ratio and overall gearing of the AHPL was low at 0.07x and 0.15x as on July 16, 2018 respectively. AHPL has healthy interest coverage ratio and total debt to GCA of 18.78x and 0.57x as on July 16, 2018 respectively. However, with the new term loans availed during FY19, for the purchase of land and building for nursing college, the debt coverage indicators will deteriorate at the end of FY19.

Growing demand of healthcare services in Nepal

Healthcare has become one of Nepal's largest sectors - both in terms of revenue and employment. Healthcare comprises hospitals, medical devices, clinical trials, outsourcing, telemedicine, medical tourism, health insurance and medical equipment. Nepalese healthcare sector is growing at a good pace due to its strengthening coverage, services and increasing expenditure by public as well private players. Rising income level, greater health awareness, increased precedence of lifestyle diseases and improved access to insurance would be the key contributors to growth.

Geographical advantage being located at prime locations

AHPL's hospital units has its presence in Jawalakhel and Ekantakuna, and nursing college at Dhobighat (all are in Lalitpur District), thus having geographical advantage being part of Kathmandu Valley. The hospitals and nursing college are well connected through roads, making it strategically located for carrying out the healthcare and nursing college business.

Key Rating Weaknesses***Debt funded capex***

AHPL had purchased land and building located at Dhobighat, Lalitpur to expand the nursing college operations at envisaged total project cost of Rs.470 Mn, which is majorly financed by bank loans during FY19.

Exposure to volatile interest rates

Nepalese banking sector fix interest rates on lending, based on quarterly published base rate by the banks. Due to tight liquidity in the market, the interest rate has been high and volatile during the last 12 months. Therefore, funding from Banks and Financial Institutions are exposed to volatile interest rate.

Presence in fragmented nature of the industry

AHPL is operated in a highly competitive industry. There are various organized and unorganized players in the market providing similar facilities. As per Government of Nepal, Ministry of Health, there are 121 public sector and 962 private sector healthcare in Nepal. The company faces stiff competition from other hospitals and private clinics in the area. The nature of healthcare industry is highly fragmented.

About the Company

Alka Hospital Private Limited (AHPL) is an ISO 9001:2015 certified private limited company, incorporated under the Companies Act, 2006. AHPL had started its operations through Alka Pharmacy which was established in 1995. The pharmacy expanded its services and the promoters established Alka Polyclinic Private Limited (APPL) on November 25, 2002. APPL continued to serve with limited services in the field of doctor's consultancy, diagnostic facilities. Later, during May 2005, the name of the company was changed to AHPL. AHPL has obtained the approval for the operation of health services with 55 beds hospital from the Government of Nepal, Ministry of Health and was expanded to 100 beds as on September 13, 2007.

Brief Financial Performance during last 3 years:

(Rs. In Million)

For the year ended Mid July,	FY16 (A)	FY17 (A)	FY18 (A)
Income from Operations	422	504	581
PBILDT	105	125	141
PAT	58	60	72
Overall Gearing (times)	0.02	0.12	0.15
Interest coverage (times)	139.31	29.80	18.78

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Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	455.00	CARE-NP BBB-
Short Term Bank Facilities	Bank Guarantee	30.00	CARE-NP A3
Total		485.00	